Overview.

This is the first part of the graduate Public Finance sequence. The broad theme of this six-week course is redistribution. We begin with the static Mirrlees model of optimal income taxation (you will see dynamic versions of this model in the Spring) and in particular empirical estimates of taxable income elasticities, a key parameter in this model. We then cover social insurance (theory, empirical evidence of moral hazard, empirical evidence of consumption smoothing, and implementation issues), with a focus on health insurance (redistribution from the healthy to the sick). We end with public goods, local public finance and fiscal federalism.

Course materials.

You will receive detailed lecture notes before each class. I will provide any paper on the reading list not on Google Scholar.

Presentations.

Starred papers on the syllabus are available for students to present. Presentations will be 10 minutes and should be performed in the style of a job paper presentation (even though it is not your own material). A subset of starred papers are marked with † are recent job market papers.

Independent research.

On the final day of class (16 December) you will each present preliminary results from an independent research project. Details are provided on a separate handout.

Exam.

There will be a final exam during the exam period in January. You will be provided with last year’s exam as an (ungraded) problem set.
Schedule of topics covered and readings

Overview: The role of government in the economy


MIRRLEES model of optimal income taxation (static)


Empirical estimates of taxable income elasticity


Social insurance: Basic theory


**Social insurance: Empirical estimates of moral hazard**


**Social insurance: Consumption smoothing**


http://economics.mit.edu/files/10156

**Social insurance: Implementation issues**


Government involvement in health insurance

* † K. Meckel (2014). “Is the Cure Worse than the Disease? Unintended Consequences of Fraud Reduction in Transfer Programs”

http://www.columbia.edu/~khm2110/kmeckel_jmp.pdf


Adverse selection


† M. Shepard (2015). *Hospital Network Competition and Adverse Selection: Evidence from the Massachusetts Health Insurance Exchange*


Supply-side issues


**Public goods** [May skip if time does not permit]


**Fiscal federalism**


**Local public finance**

Economic Activity, p. 155

J. Donahue (1997). “Tiebout or not Tiebout.” *JEP* 11.4, pp. 73–82


