

ECO 7938
Fall 2017
MAT 114
M-W 1:55-3:50 pm

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Public Economics 1

This is the first semester in the sequence on the economics of the public sector. This course covers topics in optimal taxation. The focus is to prepare you to do research in public economics.

The reading list is a little more extensive than what we will actually cover, given time constraints. At the beginning of each section, I will announce which articles you will be responsible for.

Requirements

Problem sets: They are important for learning the material, but do not count heavily toward your grade. Some problem sets extend a lecture presentation, while others include detailed examples. You may discuss these problems with other students, but you must turn in your own answers. Unless stated otherwise, they must be handed in for grading.

Exams: There will be a midterm and a final which will count equally in your grade.

I. Externalities and Corrective Taxes

Baumol and Oates, *The Theory of Environmental Policy*, 2nd edition, Cambridge University Press, 1988.

Baumol, W.J. "On Taxation and the Control of Externalities," *The American Economic Review*, 62, pp.307–322, 1972.

Baumol, W.J., and Bradford D. F. "Detrimental Externalities and Nonconvexities of the Production Set," *Economica*, 39, pp.160–176, 1972.

Starrett, D., and Zeckhauser, P. "Treating External Diseconomies—Markets or Taxes," In Pratt J. W. (ed.) *Statistical and Mathematical Aspects of Pollution Problems*, Amsterdam: Dekker, 1974

Weitzman M. "Prices vs. Quantities," *Review of Economic Studies*: 41 pp. 477-491, 1974

Hamilton, Sheshinski, and Slutsky, "Production Externalities and Long-run Equilibria: Bargaining and Pigovian Taxation," *Economic Inquiry*, 27: 453-471, 1989.

Slutsky, S., "Personal Action Altruism, Externalities, and Corrective Taxes," working paper

II. Second Best Analysis

Lipsey, R. G., and Kelvin Lancaster. "The General Theory of Second Best," *The Review of Economic Studies*, vol. 24, no. 1, 1956, pp. 11-32.

Friedman, M., "The "Welfare" Effects of an Income Tax and an Excise Tax," in *Essays in Positive Economics*, University of Chicago Press. 100 – 113.

Deepak, Unel, and Slutsky. "Optimal Public Housing Policy in the Presence of Homelessness," working paper.

III. Optimal Commodity Taxation

Diamond and Mirrlees, "Optimal Taxation and Public Production, I-II," *AER* 61: 8-27, 261-278, 1971.

Ebrill and Slutsky, "Production Efficiency and Optimal Pricing in Intermediate Good Regulated Industries," *International Journal of Industrial Organization* 8: 417-442, 1990.

Stiglitz and Dasgupta, "Differential Taxation, Public Goods and Economic Efficiency," *REStud* 38: 151-174, 1971.

Atkinson and Stern, "Pigou, Taxation, and Public Goods," *REStud* 41: 119-128, 1974.

Gaube, "When Do Distortionary Taxes Reduce the Optimal Supply of Public Goods?" *Journal of Public Economics*, Vol. 76, 151-180, 2000.

Ballard and Fullerton, "Distortionary Taxes and the Provision of Public Goods," *Journal of Economic Perspectives* 6 (No. 3): 117-131, 1992.

Cremer, Gahvari, and Ladoux, "Second-Best Pollution Taxes and the Structure of Preferences," *Southern Economic Journal* 68: 258-280, 2001.

IV. Optimal Income Taxation: Static

Stiglitz, “Self-Selection and Pareto Efficient Taxation,” *Journal of Public Economics* 17: 213-240, 1982.

Brito, Hamilton, Slutsky, and Stiglitz, “Pareto Efficient Tax Structures,” *Oxford Economic Papers* 42: 61-77, 1990.

Brito, Hamilton, Slutsky, and Stiglitz, “Randomization in Optimal Income Tax Schedules,” *Journal of Public Economics*: 56, pp. 189-223, 1995.

Broadway and Keen, “Public Goods, Self-Selection and Optimal Income Taxation,” *International Economic Review* 34(3), 1993.

Slutsky, “Schooling Policy and Pecuniary Externalities in a 2nd Best World with Administrative Waste”

V. Optimal Income Taxation: Dynamic

Brito, Hamilton, Slutsky, and Stiglitz. “Dynamic Optimal Income Taxation with Government Commitment,” *Journal of Public Economics*: 44, pp 15 – 35, 1991.

Hamilton and Slutsky. “Optimal Income Taxation Without Government Commitment,” working paper.

VI. Tax Evasion and Compliance Policies

Reinganum and Wilde. “Income Tax Compliance in a Principal-Agent Framework,” *Journal of Public Economics*: 26, pp 1 – 18, 1985.

Graetz, Reinganum, and Wilde. “The Tax Compliance Game: Toward an Interactive Theory of Law Enforcement,” *Journal of Law Economics and Organization*: 2, pp 1 – 32, 1986.

Pestieau, Possen, and Slutsky. “Jointly Optimal Taxes and Enforcement Policies in Response to Tax Evasion,” *Journal of Public Economic Theory*: 6, pp. 337 – 374, 2004.