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Winter Term 2019-20

Advanced Public Finance – Tax Theory and Policy

Main topics. The course covers the key results in the theory of optimal taxation.

- Optimal income taxation
- Optimal commodity taxation
- Direct vs indirect taxation
- Optimal taxation of capital income
- Optimal use of public debt

Methods. There are two branches in the theory of optimal taxation. First, the literature originating from Mirrlees (1971) which has income taxation as its main application and often invokes a *mechanism design* approach for a characterization of optimal taxes. More recently, an alternative approach referred to as the *perturbation method* has become popular in this literature. Second, a literature following Ramsey (1927). It makes use of results from *consumer choice theory* for static problems and of the *primal approach* in applications to dynamic tax problems. Course participants will become familiar with these methods and understand the similarities and the differences between the literatures in the tradition of Mirrlees (1971) and Ramsey (1927).

Political Economy. We will also contrast the normative prescriptions from the theory of optimal taxation with the tax systems that are politically feasible. To this end, we will cover the key results on the political economy of taxation.

Applications. As time permits we will also look at the implications of optimal tax theory for more specific applications such as

- Taxation of couples
- Taxation of inheritances
- Education subsidies
- Earnings subsidies for low incomes

Requirements. The course is intended for advanced Master students and doctoral students. There will be a mix between lectures and work on problem sets in the first part. The second part will also have presentations of research papers by course participants.

Organisation. The course begins on October 7. There are two sessions per week. On Mondays we meet from 12.00 - 13.30 in room S12 of the Seminargebäude. On Fridays we meet from 14.00 - 15.30h in room S67 of the Philosophikum.

References

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