COURSE DESCRIPTION:
This course provides an introduction to the field of public economics. The field is large, with significant theoretical and empirical components. The emphasis of this course is on the theory. It covers core ideas in the areas of static and dynamic optimal taxation, public goods and externalities, social insurance and welfare, and state and local public finance.

GRADING:
There will be a mid-term and a final. The mid-term will be held in class and will account for 40% of the grade. The final will cover material from both parts of the course, but will put greater weight on the latter. Both exams will be closed book. Problem sets will also be provided, along with answers. While these will not be graded, questions on the exams will be drawn from them.

PREREQUISITES:
Students will be assumed to have taken and mastered the first year PhD economics micro and macro theory sequences.

TEXTS AND READING:
I have not ordered any books for the course. Comprehensive lecture notes will be provided together with references to the relevant journal articles. Some of the basic material is covered in Mas-Colell, Whinston, and Green, *Microeconomic Theory*; and Ljungqvist and Sargent, *Recursive Macroeconomic Theory*. Other textbooks that might be helpful references are Atkinson and Stiglitz, *Lectures in Public Economics*; Auerbach and Feldstein (eds), *Handbook of Public Economics* Vols 1,2,3 and 4; Gruber, *Public Finance and Public Policy*; Kaplow, *The Theory of Taxation and Public Economics*; Kocherlakota, *New Dynamic Public Finance*; Myles, *Public Economics*; and Salanie, *Economics of Taxation*. 
COURSE OUTLINE

I. STATIC OPTIMAL TAXATION

We begin by discussing optimal commodity taxation. We derive the Many Person Ramsey Tax Rule and discuss the Production Efficiency Theorem. We then study the non-linear taxation of income and revisit the case for commodity taxation when non-linear income taxation is possible.


II. PUBLIC GOODS

We begin by reviewing the neoclassical theory of public goods, distinguishing excludable and non-excludable public goods, exploring the nature of market failure, and describing the idea of Lindahl equilibrium. We will then provide an overview of research on public goods since the development of the neo-classical theory. Topics include: mechanism design; the political economy of public good provision; the optimal provision of public goods when taxes are distortionary; and the private provision of public goods.


III. EXTERNALITIES

We begin by reviewing the basic idea of externalities and why they cause market failure. We then discuss the Coase Theorem; the difference between price and quantity regulatory approaches to deal with externalities; tradeable permits; optimal taxation in the presence of externalities; and common property externalities.

Chapters 7 and 8.

**IV. DYNAMIC OPTIMAL TAXATION**
We discuss the idea of Ricardian Equivalence; the Tax Smoothing problem; the Chamley-Judd result on capital taxation; the problem of Time Inconsistency; and the New Dynamic Public Finance.

**V. OPTIMAL TRANSFER PROGRAMS**
We discuss the optimal design of cash transfer programs; the role of in-kind transfers; and the determinants of public generosity towards the poor.
VI. SOCIAL INSURANCE

We begin by discussing the general arguments for the provision of social insurance. We then review some work on designing social security, unemployment insurance, and disability insurance.


VII. STATE AND LOCAL PUBLIC FINANCE

We consider issues arising in economies in which public goods and services are provided by local governments. We discuss Tiebout’s theory of local public spending; property taxation and zoning; the idea of capitalization; the distributional implications of local service provision; and state and local government interactions.


**VIII. POSSIBLY INTERESTING FUTURE TOPICS**

If time permits, we will discuss some more recent papers which suggest potentially interesting approaches and/or topics for future study.


