Econ 8801 and Econ 8802, Fall 2013 and Spring 2014  
Department of Economics  
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This is a class in Public Economics – the economics of taxation, spending, government programs, etc.

Below is a rough outline of how the class will go. It is not set in stone. If someone in the class has some ideas about what they would like to do, I’m game for that too.

The class will be a mix of lectures (by me) and presentations (by you).

If you’re taking the class for credit, you’ll be required to take responsibility for one class session over the two minis, Econ 8801 and Econ 8802. This can be either ½ a class session in each mini, or one full session in either mini.

At the start, I will cover most of the class meetings with lectures to give you a chance to think about and prepare your presentations. (See the class schedule.)

These presentations will be either discussions of alternative sources from the reading list not discussed by me, and/or factual presentations about existing social welfare programs both in the U.S. and in other countries.

Examples of what you might discuss/present are on the last couple of pages here.

**Rough Outline for Class**

**I. Endogenous Populations—Fertility Choice and Immigration**

1. The Barro and Becker Model of Fertility Choice as an Example and Positive Theory – Long Term Trends and Fluctuations

2. Efficient Populations Definitions and Examples – Larry

   a) Efficiency and the Barro/Becker Model; b) Examples of Inefficiencies – i) can’t get kids income, ii) parents and kids disagree with no commitment, iii) pollution, greenhouse gases and the kids tax, iv) urbanization, infectious diseases (and other externalities) and limited movement to the city.

Principal References:

Barro and Becker
Becker and Barro
Jones and Schoonbroodt

Borjas?

II. Ramsey Taxation

1. Optimality of Lump Sum Taxation (Notes) and some related background ideas (a lump sum equivalence result in a Ramsey setting and the taxing of leisure).

2. Two simple results on Ramsey Taxation – linear taxes
   a) homothetic utility and the uniform commodity taxation result
   b) the Diamond and Mirrlees intermediate goods result

Principal Reference:

Class Notes on Lump Sum Taxation

III. Optimal Taxation with Private Information, Static

Why not lump-sum? Non-linear taxation and a Mirrlees example in a static model (Notes)

Principal References:

Discrete Types:
Class Notes

Continuous Types:
Class Notes
“Optimal income taxation: an example with a U-shaped pattern of optimal marginal tax rates,”

**IV. Optimal Taxation with Private Information, Dynamic**

The Inverse Euler Equation and Immiseration

Principal References: Class Notes

Principal Reference: Class Notes


Hosseini, Jones and Shourideh, “Risk Sharking, Inequality and Fertility,”

**V. Existing Elements of the Social Safety Net – Social Security**

a) Description – U.S. / Others?
b) History
c) Rationales
   i) Missing or Imperfect Annuity Markets
   ii) Irrational Savings Behavior
   iii) Old Age Poverty
   iv) Intergenerational Insurance
   v) No Commitment by Government and Altruism
   vi) Efficient Retirement Ages and Bequests
   vii) dynamic inefficiency – Samuelson and the OLG inefficiency
   viii) redistribution,

**VI. Existing Elements of the Social Safety Net – Everything Except SS**

II. Social Security Disability Insurance

a) Description – U.S. / Others
b) History
c) Rationales
   i) Missing or Imperfect Disability Insurance Markets
-- ref: Golosov and Tsvinsky
ii) Old Age Poverty?

III. Medicare – U.S. / Others

Health and the safety net –

Larry Lecture: Ales, Hosseini and Jones, "Is There "Too Much" Inequality in Health Spending Across Income Groups?"


a) Description
b) History
c) Rationales
   i) Irrational Savings Behavior
   ii) Missing or Imperfect Health Care Insurance Markets
   iii) Missing or Imperfect Income Insurance Markets?
   iv) Old Age Poverty
   v) Intergenerational Insurance
   vi) No Commitment by Government and Altruism
   vii) Redistribution
   -- payments proportional to income, benefits independent of income

IV. Medicaid (Health Part, Nursing Home Part)

a) Description
b) History
c) Rationales
   i) Poverty
   ii) Missing or Imperfect Income Insurance Markets
   iii) Missing or Imperfect ‘Ability’ Insurance Markets/
   iv) Redistribution
   -- payments proportional to income, benefits independent of income

Look at National Health Accounts for data????

V. Other Countries – pensions and medical care, e.g., Universal Medical Insurance (non U.S.)
a) Description – compare to U.S.
b) History – compare to U.S.
c) Rationales
   i) Irrational Savings Behavior
   ii) Missing or Imperfect Annuity Markets
   iii) Old Age Poverty
   iv) Intergenerational Insurance
   v) Redistribution
      -- payments proportional to income, benefits independent of income

VI. AFDC/Food Stamps/Section 8 housing

a) Description
b) History
c) Rationales
   i) Non-Utilitarian Altruism
   ii) Missing ex ante ‘type’ insurance markets
   iii) Missing income insurance markets

Why do we have the government provide some goods and services to the poor – housing, food, medical care, schooling – but not others? In some sense this is back to Freidman’s old question: Why not just give them money? You can’t have it be that it is altruism in utility, then you’d just give them money. What if there are two kinds of goods – good ones and evil ones and there is only altruism with respect to good ones? What kinds of income insurance programs, etc, would this generate?

VII. Inequality and Redistribution – The Top 1%

No planned Lectures on this topic. See References for possible papers for presentations.

Further References on These Topics:

I. Endogenous Populations—Fertility Choice and Immigration

Immigration – George Borjas at JFK, Harvard is the person people talk about for this topic, mostly about what are the effects on wages from increased immigration.

“Rethinking the Effects of Immigration on Wages,” Gianmarco I. P. Ottaviano and Giovanni Peri, October 2006.

“Rethinking the Effect of Immigration on Wages,” Gianmarco I.P. Ottaviano, (Bocconi University and CEPR) and Giovanni Peri, (University of California, Davis and NBER), March 2010.

**IV. Optimal Taxation with Private Information, Dynamic**

*Taxation of Capital Income:*


“Capital Taxation: Quantitative Explorations of the Inverse Euler Equation” Emmanuel Farhi and Ivan Werning.


*Miscellaneous:*


*Dynamics and Immiseration*


Dynamic contracting with Correlated Shocks


“Insurance and Taxation over the Life Cycle,” Emmanuel Farhi and Ivan Werning.

“Optimal Dynamic Taxes,” Mikhail Golosov, Maxim Troshkin and Aleh Tsyvinski, July 2010

V. Existing Elements of the Social Safety Net – Social Security

References:

A. Big Picture ideas on What Should Social Security Do


B. Surveys on the Theoretical and Empirical Research on Social Security


C. How Well Social Security performs as Social Insurance


Normative Rationales for Social Security (possibly an incomplete list)

D. Missing or Imperfect Annuity Markets:


E. ‘Irrational’ (time inconsistent?) Saving Behavior


There are many theoretical papers on self-control (e.g. by Gul and Pasendorfer, etc) that motivate this literature

F. Intergenerational Risk Sharing


G. There are many papers on efficiency of equilibrium in an stochastic OLG model which are related to the previous group


H. Dynamic Inefficiency in OLG Economies


I. No Commitment by Government and Altruism

I hear people talk about it (e.g. Prescott). Have not seen a serious paper on it yet.

J. Efficient Retirement, Sort of Related:


VII. Inequality and Redistribution – The Top 1%

Journal of Economic Perspectives, Summer 2013, has several summaries of the recent work on documenting and studying the change in the income distribution over the last 30 or so years. The first article is by Thomas Piketty and Emmanuel Saez who have made a living out of this issue over the last 10 years in one way or another. They cite many of their own earlier papers if you want to look for something else to present beyond this summary paper.