

**Centre for International Trade and Development
School of International Studies**

Course (MA/PhD): MA
Course Title: Public Economics – IE522
Course Type (Core/Optional): Optional
Course Teacher: Sushama Murty
Credits: 4
Contact Hours: 4 per week

Course Objectives

- To impart knowledge and training of basic theories of taxation and their implications for real life tax policies.
- To prepare students for undertaking advanced research work and a PhD in the area of taxation theory.
- To train students to be independent researchers, and prepare them as professional economists for faculty positions in the universities, in government and non-government organizations, research organizations, and the corporate world

Learning Outcomes

- Students should be able to apply basic tenets of optimal taxation theory to analyse and critically evaluate real-life tax policies.
- Student should be able to formulate appropriate economic models and conduct analysis for the design of tax policies
- Students should be able to comprehend that tax policies serve different and often conflicting policy objectives such as growth, efficiency, revenue generation, equity/redistribution, externality correction, public good provision etc
- Students should be able to read and comprehend state of the art literature on taxation theory

Evaluation Methods:

- Mid semester closed book examination: 50%
- End semester closed book examination: 50%

Course Content

1. Basics of general equilibrium and welfare economics, fundamental theorems of welfare economics, role of government in a market economy, first-best versus second-best economies
2. Ramsey taxation (Diamond and Mirrlees 1971 model); optimal tax rules – inverse elasticity rule, many person Ramsey rule, second-best production efficiency; value-added taxation

3. Non-linear income (direct) taxation – information constraints, marginal and average tax rates, characterising optimal non-linear income tax schedule (Mirrlees 1971 model), using elasticities to derive optimal income tax rates (Saez 2001 approach),
4. Optimal commodity and income tax mix.
5. Second-best corrective taxation for environmental externalities – violation of production efficiency, decomposition into many person Ramsey rule and Pigouvian components, non-uniqueness of optimal tax mix
6. Public goods and tax-transfer schemes – social optimum, decentralisation of social optimum-Lindahl equilibrium, free riding equilibrium, mechanism design approach for public good provision – use of tax and transfer schemes, public good provision through majority voting, second-best provisioning of public good, comparisons with first-best socially optimal level of public good.
7. Value added taxation in an open economy – border tax adjustments, destination and origin based principles, neutrality under uniform VAT, tax competition and equivalence of tax regimes.
8. Introduction to dynamic taxation of capital income and optimal fiscal policies in a growing economy.

Readings

1. Atkinson, A., and J. Stiglitz., *Lectures on Public Economics*. Mcgraw--Hill, 1980 and updated edition by Princeton University Press 2015.
2. Auerbach, A., and M. Feldstein. *Handbook of Public Economics*. Vol 1, 2, 3, 4, 5. North Holland, 1985, 1987, 2002, 2002, 2013.
3. Cornes, R., and Todd Sandler, *The Theory of Externalities, Public Goods, and Club Goods*, Cambridge University Press, 2012
4. Guesnerie, R., *A contribution to the pure theory of taxation*. Cambridge University Press, 1998.
5. Institute for Fiscal Studies, *The Mirrlees Review*, Oxford University Press, 2010.
6. Myles, G., *Public Economics*. Cambridge University Press, 1995.
7. Saez, E., Using Elasticities to Derive Optimal Income Tax Rates, *Review of Economic Studies*, 68, 2001, 205--229.
8. Salanie, B., *Economics of Taxation*. MIT Press, 2011.
9. Tuomala M., *Optimal Redistributive Taxation*, Oxford University Press, 2016
10. Weymark, J., *Redistributive nonlinear income taxation*. Unpublished Lecture notes, 2012.