

Course Name: Public Economics

Lecturer: Sushama Murty

Number of credits: 4

Course scheduling: Winter semester

Evaluation: Mid semester: 40%, End semester: 40%, Paper presentation: 20%

Course description.

This course will draw on the classic literature on optimal taxation and cover in detail the theoretical aspects of second-best taxation and their implications for real life tax policies. It will be reasonably technical and rigorous in economic theory, discussing also several applications and policy prescriptions that follow from the theoretical analyses studied. In most topics, a general equilibrium approach will be adopted.

Subject to time constraints, we will cover as many of the following topics as possible:

- (1) Basics of general equilibrium theory and welfare economics. First-best versus second-best economies, equity-efficiency trade-offs.
- (2) Indirect (linear) commodity taxation:
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)
- (4) Some issues in designing direct and indirect taxes: optimal tax mix, using elasticities to derive optimal income and commodity tax rates, uniform taxation, labour supply and taxes
- (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

General References In addition to relevant material in the following books, topic-wise articles from various journals and DP series will also be specified

- Atkinson, A., and J. Stiglitz. *Lectures on Public Economics*. McGraw-Hill, 1980.
- Myles, G. *Public Economics*. Cambridge University Press, 1995.
- Weymark, J. “Redistributive nonlinear income taxation.” Lecture notes, 2012.
- Guesnerie, R. *A contribution to the pure theory of taxation*. Cambridge University Press, 1998.
- Piketty, T. *Capital in the twenty-first century*. Harvard University Press, 2013.
- Auerbach, A., and M. Feldstein. *Handbook of Public Economics*. Vol 1, 2, 3, 4, 5. North Holland, 1985, 1987, 2002, 2002, 2013.
- Institute for Fiscal Studies. *The Mirrlees Review*. Oxford University Press, 2010.
- Arrow, K., and M. Intriligator. *Handbook of Mathematical Economics*. Chapter 24: Theory of Optimal taxation by J. Mirrlees, Vol 3, North Holland, 1986
- Institute for Fiscal Studies. *The Mirrlees Review*. Oxford University Press, 2010.