This is the first of two courses in the graduate public economics sequence at Harvard. This one-semester course covers basic issues in the optimal design of tax and social insurance policies, with emphasis on combining theoretical models with empirical evidence. Topics include efficiency costs and incidence of taxation, income taxation, transfer and welfare programs, public goods and externalities, optimal social insurance (excluding social security), and welfare analysis in behavioral models.

The course consists of 28 lectures, each lasting 1.5 hours. The slides and reading list are divided into eight parts:

Part 1: Introduction
Part 2: Tax Incidence [3 lectures]
Part 3: Efficiency Cost of Taxation [3 lectures]
Part 4: Optimal Taxation [5 lectures]
Part 5: Income Taxation and Labor Supply [4 lectures]
Part 6: Social Insurance [5 lectures]
Part 7: Public Goods and Externalities [4 lectures]
Part 8: Corporate Taxation [4 lectures]
Part 9: Education Policy [2 lectures]

We would like to thank Emmanuel Saez, Jon Gruber, Day Manoli, and many other colleagues whose comments and lecture notes contributed to the development of these slides.
Tax Incidence and Efficiency

**Tax Incidence**

Partial Equilibrium Incidence


**Empirical Applications**


General Equilibrium Incidence


Open Economy Applications


Capitalization and the Asset Price Approach


Proceedings of the National Tax Association, 1983, 112-120.

Mandated Benefits


Excess Burden

Theory


### Applications


**Optimal Taxation**

**Commodity Taxation**


**Taxation of Savings**


D. Bernheim, A. Frandkin, and I. Popov, “The Welfare Economics of Default Options: A


**Income Taxation**


G. Laroque, 2005 “Indirect taxation is superfluous under separability and taste homogeneity: A simple proof”, *Economic Letters*, 87, 141-144.


**Transfer Programs**


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**Income Taxation and Labor Supply**

**Estimating Labor Supply Elasticities**


**Taxable Income Elasticities**


**Welfare Programs and the Earned Income Tax Credit**


**Structural Elasticities and Macroeconomic Evidence**


**Social Insurance**

**Market Failures and Motivations for Government Intervention**


N. Hendren, “Private Information and Insurance Rejections” Harvard University mimeo, 2012


**Unemployment Insurance**

**Theory**


Empirics

Worker Behavior


**Firm Behavior**


**Workers Compensation**


### Disability Insurance


Public Goods and Externalities

Externalities and Pigouvian Policies

Theory


Applications


Public Goods

Theory


Atkinson and Stiglitz, Lectures on Public Economics Chaps. 16 and 17 and pages 457-76

Auerbach and Feldstein, Handbook of Public Economics (vol 2), Chap 9; (chap 10); chap 11, pp. 571- 601


Evidence


**Corporate Taxation**

**Payout and Corporate Profits Taxes**


A. Brav, J. Graham, C. Harvey and R. Michaely, “Payout Policy in the 21st Century,” *Journal of*
Financial Economics 77, 483-527.


**Tax Incentives for Investment**


**Taxation and Capital Structure**

A. Auerbach, "Taxation, Corporate Financial Policy, and the Cost of Capital," *Journal of Economic Literature* 21 (1983), 905-940, esp. section IV.


**Organizational Form and International Taxation**


### Education Policy

#### Motives for Government Intervention


#### Education Production Functions


**Personnel Policy**


BACKGROUND READING AND REFERENCES

General Public Economics Textbooks


E. Saez Berkeley public economics lecture notes: http://elsa.berkeley.edu/~saez/course/course.html

References for a simple description of the U.S. tax system and government programs


References for applied econometrics methods used in this course


