Optimal Fiscal Policy (Econ 882-13)

2nd-year PhD module

Instructor: Andrea Lanteri

Part 1: Full commitment

1) The basics: social planner, competitive equilibrium, implementability constraint, Ramsey equilibrium. The optimal timing of distortionary taxes (Lucas and Stokey, 1983).

Background reading: Barro (1979)


Part 2: Commitment frictions

4) No commitment: Markov-perfect equilibrium. An application to time-consistent fiscal policy, Klein et al. (2008)

Background reading: Kydland and Prescott (1977)

5) Quasi-commitment (Schaumberg and Tambalotti, 2007), Loose Commitment (Debortoli and Nunes, 2009), Limited-Time Commitment (Clymo and Lanteri, 2016)
Part 3: Extra topics

6) Information frictions: optimal policy and signal extraction (Hauk et al., 2015). Discussion/presentations of additional papers.

Required readings

1) Ljungqvist and Sargent, Recursive Macroeconomic Theory, Chapter 15 (in the “red” edition)
2) Sargent (2012), Nobel Lecture: United States Then, Europe Now, JPE
3) Lucas and Stokey (1983), Optimal Monetary and Fiscal Policy in an Economy without Capital, JME
4) Chari and Kehoe (1999), Optimal Fiscal and Monetary Policy, Handbook of Macroeconomics
5) Aiyagari et al. (2002), Optimal Taxation without State-Contingent Debt, JPE
6) Klein et al. (2008), Time-Consistent Public Policy, ReStud