Optimal Fiscal Policy (Econ 882-12)

2nd-year PhD module

Instructor: Andrea Lanteri

Lectures

<u>Part 1: Full commitment</u>

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)

Assignment A (pencil and paper): Lucas and Stokey (1983). Derive implementability, solve for the Ramsey allocation and prove complete tax smoothing with CRRA separable preferences.

2) Capital and labor taxes: Judd (1985), Chamley (1986), Chari and Kehoe (1998)

Assignment B (computer): Solve a deterministic model of optimal capital and labor taxes with balanced budget (Stockman, 2001) using projection methods, show how transition depends on IES.

Additional paper: Straub and Werning (2015)

3) Recursive contracts: Marcet and Marimon (2011). An application to fiscal policy without state-contingent debt: AMSS (2002).

Assignment C (extra) (computer): Solve the risk-neutral case (example 2) of AMSS using the Parametrized Expectations Algorithm (den Haan and Marcet, 1990)

Part 2: Commitment frictions

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

Additional paper: Sustainable plans, Chari and Kehoe (1990)

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

6) Information frictions: optimal policy and signal extraction (Hauk et al., 2014). Discussion/presentations of additional papers.

Required readings

1) Ljunqvist and Sargent, Recursive Macroeconomic Theory, Chapter 15 (in the ``red'' edition)
2) Lucas and Stokey (1983), Optimal Monetary and Fiscal Policy in an Economy without Capital, JME
3) Chari and Kehoe (1999), Optimal Fiscal and Monetary Policy, Handbook of Macroeconomics
4) Aiyagari et al. (2002), Optimal Taxation without State-Contingent Debt, JPE
5) Klein et al. (2008), Time-Consistent Public Policy, ReStud