# Syllabus

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**Course: Public Economics**

**Professor:**

## 2027 FIRST SEMESTER

### COURSE OUTLINE

The course explores two dimensions. Taxation and publicly provided goods. In both parts we first address each topic theoretically and then (whenever appropriated) we present empirical papers. We must cover a broad range of topics that capture the frontier of public economics analysis as well as research questions applied to Brazil.

### METHODOLOGY

Lectures, paper presentations.

### PROGRAM

| Lecture | Date | Topics | Recommended papers | To do list |
|---|---|---|---|---|
| Class1 | | Welfare economics and excess burden | Auerbach + Auerbach Hines e Diamond e McFadden | |
| Class 2 | | Marginal cost of public Funds | Atk Stern + Ballard e Fullerton + Wildasin Empirico: Fullerton, Conway, DMS, CMP | |
| Class3 | | Optimal income tax<br>Direct vs indirect tax | Stiglitz, Mirless, Seade, Saez | P1: Research Question: 250 words |
| Class4 | | Evasion and optimal income tax | Alingham and Sandmo, CG95, AMT 2011 | R1: E. Farhi and X. Gabaix, "Optimal Taxation with Behavioral Agents," AER 2019. |
| Class 5 | | Evasion – empirics | Pissarides and Weber, Feldman and slemrod, Hurst Li and Pugsley; H. J. Kleven, M. Knudsen, C. T. Kreiner, S. Pedersen, and E. Saez | |
| Class 6 | | Evasion – empirics | Pomeranz (2015), Carillo et al (2016), Haswgawa et al 2013, Gadenne et al 2019, Garriga and Tortarolo, 2022 | |

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| Class 7 | | Commodity taxes and evasion (theory and empirics) | DM- 71, AMR 21, Best et al 2015, CG, 93, AM, 2015, Naritomi 2019, Slemrod (avoidance), | |
| Class 8 | | Bunching at kinks, lines and notches - methods | Saez (2010), kleven (2013), Slemrod (2015) | R2: H. Kleven, "Bunching," *Annual Review of Economics*, 8 (2016): 435-464. |
| Class 9 | | Bunching at kinks, lines and notches - applications 1 | Kleven and Waseem (2011) Liu et al(2020), Best et al 2015 | |
| Class 10 | | ETI | Feldstein 1995, slemrod 98, saez, slemrod and giertz, gruber and saez | Deadline for the paper to be presented along with your research idea. |
| Class 11 | | Tax Incidence: Payroll Taxes | Guo (2024), Ku et al (2020) Baumgartner et al (2025), Blandhol, et al (2025), Gruber (1997), Garriga, Tortaolo (2025) | |
| Class 12 | | Wealth Taxation | Kopcuzk (07,09,10,15,16), Saez &Zucman(16, 19a, 19b) | |
| Class 13 | | Gifts and Inheritance responses to tax policies | Locks (2022, Brazilian inheritance), Glogowski (2021), Fack and Landais (2016), Goupille-Lebret, Jonathan and Jose Infante (2018) | |
| Class14 | | Papers Presentation/Discussion: Fiscal Federalism | | |

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| Class15 | | Papers Presentation/Discussion: Working paper series | | Research proposal (P2) – 2pages |

## GRADING

1) 20% referee report with discussion (R1 and R2)

2) 30% Presentation (Selected paper with the research idea).

3) 50% Research

a) 10% research question (P1)
b) 40% research proposal (P2)

Notes: Students must submit two concise referee reports on the assigned articles. Each report should summarize the article in a few lines and critically assess its main contributions and limitations. Focus on the issues that matter most for the paper's conclusions, such as data and measurement, identification, econometric specification, internal and external validity, and interpretation of results. Where appropriate, suggest remedies, additional robustness checks, or extensions to other settings. Each report may be written in Portuguese or English and must be no longer than 600 words. Reports will be graded on the quality, specificity, depth, and independence of the analysis. Students should also be prepared to discuss each assigned article and share their assessment in class.

## BIBLIOGRAPHY

Suggested books:

Salanié, Bernard (2003). Economics of Taxation, MIT press.

Myles, G. (1995). Public Economics, Cambridge University Press.

Atkinson, A e Stiglitiz, J., Lectures on Public Economics, 1980

Rosen, H. (2004) Public Finance, McGraw-Hill/Irwin; 7 edition

Dahlby, B. (2008). The marginal cost of Public Funds. Theory and applications, MIT press.

Feldman, A., Welfare Economics and Social Choice Theory.

Handbook of Public Economics (2002), Alan J. Auerbach and Martin Feldstein, editores ISBN: 978-0-444-82315-1 , vol. 4 Elsevier.

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Handbook of Public Economics (1987), Alan J. Auerbach and Martin Feldstein, editores ISBN: 978-0-444-87908-0, vol. 2 Elsevier.

Handbook of Public Economics (1985), Alan J. Auerbach and Martin Feldstein, editores ISBN ISBN: 978-0-444-87612-6, vol. 1 Elsevier

## ARTICLES

**Welfare Economics and Excess Burden**

*1. Background*

Mas-Colell, A., Whinston, M. e Green, J., Microeconomic Theory, 1995, p-80-91, 116-123, 325-334, 817-831.

Diamond, P., Feldstein, M., Laffont, J., Stern, N. e Stiglitz, J.(2002). Journal of Public Economics, December, 2002.

*1.1 Theory*

Auerbach, A..The theory of excess burden and optimal taxation in Handbook of Pulbic Economics, vol.1, pp 61-86.

Auerbach A. and Hines, J.. Taxation and Economic Efficiency, Handbook of Public Economics, vol3, p. 1347-1360.

Diamond, P. and McFadden, D.. Some uses of the expenditure function in public finance, JPubE, vol3, 1974, p. 3-21.

Hausman, J.A., Exact consumer´s surplus and deadweight loss, AER, 1981.

Salanie, B, the economics of Taxation, appendices.

*1.2 Measure*

Slesnick, D., Empirical Approaches to the Measurement of Welfare, JEL, 36, p. 2108-2165.

***2.* Marginal cost of public fund**

*2.1 Theory*

Atkinson, A.B. e Stern, N. (1974), Pigou, Taxation and Public Goods. Review of Economic Studies, 41, pp. 119—128.

Ballard, C., (1990), Marginal Welfare Cost Calculations: Differential Analysis vs. Balanced Budget Anaysis. Journal of Public Economics, 41, pp. 263—273.

Ballard, C. e Fullerton, D. (1992), Distortionary taxes and the provision of public goods. Journal of Economic Perspectives, 6, pp. 117—131.

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Wildasin, D. (1984), On public good provision with distortionary taxation. Economic Inquiry, 22, pp. 227-243.

Wilson, J. (1991), Optimal public good provision with limited lump-sum taxation. American Economic Review, 81, pp. 153—166.

Gahvari, F.. On the marginal cost of public funds and the optimal provision of public goods, JPubE, 2006.

Dahlby, B. (2008). The marginal cost of Public Funds. Theory and applications, MIT press.

*2.2* Empirical measure

Browning, E. (1987), On the marginal welfare cost of taxation. American Economic Review, 77, pp. 11--23.

Ballard, Shoven e Whalley (1985), General Equilibrium computations of the marginal welfare costs of taxes in the United States. American Economic Review, 75, pp. 128—138

Conway, K. (1997), Labor supply, taxes, and government spending: a microeconometric analysis. Review of Economics and Statistics, 79, pp. 50—67.

Fullerton, D. Reconciling Recent Estimates of the Marginal Welfare Cost of Taxation, AER, 81, p. 302-308.

Duarte, L, Mattos, E e Serillo, J. (2011). On the marginal social cost of cash-cum-in-kind-transfers, Journal of Economic Studies.

Chetty, Raj. 2009. "Is the Taxable Income Elasticity Sufficient to Calculate Deadweight Loss? The Implications of Evasion and Avoidance." *American Economic Journal: Economic Policy*, 1(2): 31–52.

Ricardo Politi, Cardim, Rafael and Enlinson Mattos (2017). Transfers and marginal cost of public funding: Empirical evidence for local governments in Brazill. RBE.

Hendren, N. and Sprung-Keyser (2019). A Unified welfare Analysis of government Policies (mimeo)

## *3.* Optimal Tax –

*3.1 Optimal commodity tax*

Homburg, Stefan (2006) A new approach to commodity taxation, FinanzArchiv.

SB, cap2
Auerbach, A, The theory of excess burden and optimal taxation in Handbook of Pulbic Economics, vol.1, pp 86-110.

Auerbach A. and Hines J., Taxation and Economic Efficiency, Handbook of Public Economics, vol3, p. 1361-1371.

Atkinson A. and Stiglitz, J. Lectures on Public Economics, chapter 12.

Atkinson A. and Stiglitz, J. The structure of indirect taxation and economic efficiency, JPubE, 1972, p. 97-119.

Sandmo, A, Optimal Taxation: An introduction to the literature, JPubE, 1976.

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I: Production Efficiency," The American Economic Review, 61, 8-27.

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Economic Review, 61, 261-278.

*3.2 Optimal income tax*

Auerbach A. and Hines J., Taxation and Economic Efficiency, Handbook of Public Economics, vol3, p. 1372-1383.

Atkinson, A. and Stiglitz, J.. Lectures on Public Economics, chapter 13.

Stern, H.. On the specification of Optimum Income Taxation, JPubE, 1976, p. 123-162.

Sheshinski, E.. The Optimal linear income tax, RES, 1972, p. 297-302.

Mirrlees, J.. An Exploration in the theory of optimum income taxation, RES, 1971.

Sadka, E.. On progressive taxation, AER, 1976.

Akerlof, G.. The economics of tagging as applied to the optimal income tax, AER vol 68, 1978, p. 8-19.

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*3.3 Optimal income tax - empirical*

Mattos, E (2008). The revealed social welfare function: US versus Brazil, Brazilian Review of Econometrics.

Bourguignon, F and A. Spadaro (2002).
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Tax-Benefit Revealed Social Preferences. PSE working paper 2005-22.

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SB, cap3

*Optimal design of taxes*

Stiglitz, J.. Pareto efficiency and optimal taxation and the new new welfare economics in Handbook of public economics vol2, 1987, p. 991-1041.

Atkinson, A. and Stiglitz, J. The design of tax structure: direct versus indirect taxation, JPUBe, 1982..

Atkinson, A. Optimal taxation and the direct versus indirect tax controversy, Canadian journal of economics, 1977, p. 590-606.

Boadway, R.. The Mirrlees´ approach to the theory of economics policy, IntTaxandPubFin, vol 5, 1998, p. 67-81.

Dixit, A. and Besley, T.. James Mirrlees´ contributions to the theory of information and incentives, Scandinavian Journal of Economics, vol 99, 1997, p. 207-235.

SB, cap4
3.5 Optimal progressivity

J. Mirrlees, “An Exploration in the Theory of Optimum Income Taxation,” Review of Economic Studies, 38 No. 2 (April, 1971): 175-208.

N. Stern, “On the Specification of Models of Optimum Income Taxation,” Journal of Public Economics, 6 No. 1-2 (July/August, 1976): 123-162.

J. Seade, “On the Shape of Optimal Tax Schedules,” Journal of Public Economics, 7 No. 2 (April, 1977): 202-235.

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J. Slemrod, S. Yitzhaki, J. Mayshar, “The Optimal Two-Bracket Linear Income Tax,” Journal of Public Economics, 53 No. 2 (February, 1994): 269-290.

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### *4.* Evasion Overviews

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J. Naritomi, “Consumers as Tax Auditors,” AER 2019.

J. Slemrod, B. Collins, J. Hoopes, D. Reck, and M. Sebastiani, “Does Credit-Card Information Reporting Improve Small-Business Tax Compliance?” Journal of Public Economics, 149 (May, 2017): 1-19.

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### 7.2. The effect of tax rates

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### 7.4. The effect of public disclosure

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## 10 ETI - ELASTICITY OF TAXABLE INCOME

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### 12. Optimal tax systems and structures

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