
EC325

PUBLIC FINANCE

Syllabus 2024/2025

Instructor

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Office Hours:

- Book office hours via the Student Hub, find the Zoom link in the description on the Student hub

Landais:

- Tuesdays 16:00-17:00 in the AT

Smith:

- Tuesdays 11:30-12:30 in the WT

Course Coordinator

MT : Francisco Libano-Monteiro, M.F.Libano-Monteiro@lse.ac.uk

Course Aims:

- To give students an appreciation of the analytical methods in economics for the study of the public sector and the role of the state in principle and in practice.
- To provide a thorough grounding in the principles underlying the role of the state, the design of social insurance and the welfare state and the design of the tax system.
- To enable students to understand the practical problems involved in implementing these principles.

Objectives: By the end of the course the students should be able to:

- Discuss critically key issues in public economics, informed by recent research.
- Present a coherent argument orally and in writing on topics in public economics.
- Demonstrate a familiarity with a range of policy issues and relevant analytical and empirical tools.

Prerequisite:

Microeconomic Principles, EC201/2 or similar. The capacity to read and understand applied research methods as covered in EC220/221 is not required but useful.

Content:

This course provides an introduction to the economic analysis of public policy issues. The focus of the course is on the development of up-to-date analytical tools, drawn from recent research, and their application to key policy issues relating to the spending, taxing and financing activities of government.

The first part of the Autumn term content focus on the foundations of public economics. We begin by introducing classical theories concerning equity, efficiency, and the rationales for government intervention in the economy. We discuss market failure in the context of public goods and externalities, including environmental policy. We also discuss problems of public choice and political economics, and the implications of recent research in behavioural economics for policymaking. We also study modern empirical methods that are used to evaluate the causal effects of public policies. The second part of the Autumn term considers social insurance policies, including unemployment insurance, disability insurance, retirement pensions, and public health insurance. We study the economic rationale for government intervention in social insurance and the optimal type and extent of interventions, and we relate this to empirical evidence on the causal effects of changes in social insurance policies.

In the Winter Term the course is devoted to tax and transfer programs. We begin by examining the incentive effects of taxes and transfers on labour supply, and then go on to consider migration, tax avoidance, and tax evasion. As inequality is a key input to tax and transfer policy, we critically examine the measurement of and trends over time in income and wealth inequality in various countries. We look at the effect of taxation on economic efficiency and explore the optimal taxation of commodities and income. Finally, we consider questions of tax administration and apply them in a developing country context.

Course Components

There are five core components to this course. The **reading list** below tells students what they should be reading each week. Students should attempt to read the required readings *before the lecture each week*, and return to them during revision to improve your understanding. Where research papers are assigned, students are not expected to understand every single component of them, just read for the main ideas and findings, and pay attention to the focus of the lecture. The **lectures** provide a big-picture overview of the course material, drawing from the course readings and a range of other sources. The formative **problem sets** give students a way to directly engage with this material themselves by writing, working problems and engaging critically. **Classes** give students a chance to ask questions about comprehension of the material, practice problems, and exam preparation in a small group teaching setting.

Assessment:

The **formative assessment** for the course consists, in each term, of a short-answer assignment on week 6 of the term and a mock exam at the end of the term. The short-answer assignment contains short-answer questions similar to the short-answer section of the exams. The mock exam contains short- and long-answer questions similar to those found on the summative examination, for material taught in the term.

The **summative assessment** for the course consists of a final examination in the Summer Term.

Textbooks:

The recommended textbook for the course is **Jonathan Gruber (2016) *Public Finance and Public Policy*, 5th edition**. Students are encouraged to purchase the text for ease of reference. Copies will also be available in the Library Course Collection. Earlier editions of the text are less up to date but have similar coverage (chapter and section references also tend to be the same across editions). A sixth edition of the textbook has recently become available. It is more expensive but also suitable. We also use **Barr (2012), *The Economics of the Welfare State*, 5th edition**. A 6th edition of this book was released in 2020 but my understanding is that it is not yet available in the library. Nevertheless, students should feel free to use the updated edition.

General:

J Gruber (2016) *Public Finance and Public Policy*, 5th edition, Worth Publishers.

N Barr (2012), *The Economics of the Welfare State*, 5th ed., OUP

Institute for Fiscal Studies, *Mirrlees Review: Reforming the Tax System for the 21st Century*, Volume 1 (2010): Dimensions of Tax Design, Volume 2 (2011): Tax by Design. Oxford University Press, Oxford. Available online at: <http://www.ifs.org.uk/mirrleesReview>

Dimensions of Inequality: The IFS Deaton Review, Oxford Open Economics, Volume 3, (2024). Oxford University Press, Oxford. Available online at: https://academic.oup.com/ooec/issue/3/Supplement_1

Review:

Students wishing to review their microeconomic theory should consult a textbook on intermediate microeconomic theory, such as Morgan, Katz and Rosen (2006) *Microeconomics*, McGraw Hill (CC HB172 M84) or J Perloff (2008) *Microeconomics: Theory & applications with calculus*, Pearson (CC HB172 P45). CC refers to Course Collection.

Students who have not taken an econometrics course may wish to review the basics of probability, statistics, and multiple regression, in or before week 5 of the MT. Useful references for this purpose are Stock, James H. and Mark W. Watson (2019), *Introduction to Econometrics*, Pearson or Wooldridge, J. W. *Introductory Econometrics. A Modern Approach*, 6th Edition, South-Western, or J. D. Angrist and J. S. Pischke *Mastering 'Metrics. The Path from Cause to Effect*, Princeton University Press.

LECTURE SCHEDULE AND READING LIST

Please note:

The starred items are compulsory. You should **not** attempt to read everything on the reading list; the supplementary readings are provided for students interested in pursuing a particular topic in more depth or for those seeking an alternative approach to that in the starred readings.

Almost all of the journal articles in the reading list can be accessed via the LSE Library electronic journals collection. Hyperlinks are given for working and discussion papers; the links may become outdated. Contact your GTA if you are having trouble finding something on the reading list and we can help. Additionally, the links on the syllabus may become outdated. For links to compulsory readings (other than the textbooks), consult the links in the electronic course pack, on Moodle. All other readings are easy to find via Google Scholar (scholar.google.com).

PART I - Foundations of Public Economics

Introduction to public economics and public policy analysis

Introduction and Background Reading

Motivation. The 4 questions of public economics. Overview of the course aims and background. Outline of the course.

*Gruber (2016), chs 2 (especially 2.3), 4, 17 (section 17.1)

Note: this material is covered in the ["trailer" video for EC325](#), which you should view as part of the course material.

<https://moodle.lse.ac.uk/mod/resource/view.php?id=1293070>

Conceptual Foundations of Public Economics

1. Welfare Economics 1: Revealed Preference

Outline of the course. Rational choice. Revealed Preference. Utility maximization and consumer welfare measures.

*Gruber (2016), ch. 2

*Samuelson (1948) "Consumption Theory in Terms of Revealed Preference." *Economica* 15(60) pp 243-253.

*Sen (1973) "Behavior and the Concept of Preference." *Economica* 40(159) pp 241-259.

2. Welfare Economics 2: Welfare in Markets

Equilibrium analysis. Economic incidence. Fundamental theorems of welfare economics.

*Barr (2012), chs. 2 through 5.

Empirical Methods for Public Economics

3. The evaluation problem

Potential outcome framework and the evaluation problem. Randomized experiments. Natural experiments. Differences in Differences. Regression Discontinuity.

Note: If you have not completed a course in econometrics in the past, you are expected to do some additional background reading in this week. You can read more about whatever you do not understand in Stock and Watson, chapters 2 through 7, 12, and 13, or similar chapters of Wooldridge or Angrist and Pischke. Econometrics textbooks will cover these material in more depth than is strictly required for the course but a good understanding of multiple regression is important. Some useful online lessons from Angrist and Pischke are [here](#).

*Gruber (2016), ch. 3

*Angrist, J. (2008), "Treatment Effects", *The New Palgrave*, <http://econ-www.mit.edu/files/32>

Angrist, J. and A. Krueger (1999), "Empirical Strategies in Labor Economics", in Ashenfelter and Card, *Handbook of Labor Economics*.

Duflo, Esther, Rachel Glennerster, and Michael Kremer. 2008. "Using Randomization in Development Economics Research: A Toolkit." In *Handbook of Development Economics*, Volume 4, ed. T. Paul Schultz and John Strauss, 3895–3962. Amsterdam and San Diego Elsevier, North-Holland.

Angrist, Joshua D., and Victor Lavy. 1999. "Using Maimonides' Rule to Estimate the Effect of Class Size on Scholastic Achievement." *Quarterly Journal of Economics*, 114(2): 53375.

Krueger, Alan B. 1999. "Experimental Estimates of Education Production Functions." *Quarterly Journal of Economics*, 114(2): 497532

PART II- Climate Change & Public Policies

4. Externalities

The theory of externalities. Market failure and the conditions for economic efficiency. Types of externalities. Private bargaining solutions versus government intervention. Alternative government policies: taxes, congestion charges, regulation, and zoning. Climate change.

*Gruber (2016), chs 5, 6 (especially sections 6.1 and 6.2)

*Fullerton, D, A Leicester and S Smith (2010) "Environmental Taxes", *Dimensions of Tax Design* (The Mirrlees Review, vol. 1), ch. 5. Part A only (pp 423-449). <http://www.ifs.org.uk/mirrleesreview/dimensions/ch5.pdf>

*Kenneth Y. Chay & Michael Greenstone (2005) "Does Air Quality Matter? Evidence from the Housing Market," *Journal of Political Economy*, University of Chicago Press, University of Chicago Press, vol. 113(2), pages 376-424, April. http://www.jstor.org/gate3.library.lse.ac.uk/stable/10.1086/427462?seq=1#page_scan_tab_contents

J Leape (2006), "The London Congestion Charge", *Journal of Economic Perspectives*, 20:4, Fall, 157-176. [<http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.20.4.157>]

N H Stern (2008), "The economics of climate change", *American Economic Review*, **98**, 1-37. [<http://dx.doi.org/10.1257/aer.98.2.1>]

HM Treasury, *The Stern Review: The Economics of Climate Change*, October 2006 (see especially part IV: "Policy responses for mitigation") [http://www.hm-treasury.gov.uk/independent_reviews/stern_review_economics_climate_change/sternreview_index.cfm]

5. Public goods

The theory of public goods: non-rivalness and non-excludability; efficient provision of public goods. Public-private crowd-out in theory and in practice.

*Gruber (2016), ch. 7. Also review ch. 2 section 2.3.

Bergstrom, T.C., L.E. Blume, and H. Varian (1986). "On the Private Provision of Public Goods." *Journal of Public Economics* 29(1) pp 25-49.

Morgan, J. (2000), "Financing Public Goods by Means of Lotteries", *Review of Economic Studies*, **67**, 761-784. <http://www.jstor.org/stable/2695947>

Stiglitz, J., (2002) "Information and the Change in the Paradigm in Economics", *American Economic Review*, 92:3, June, 460-502. <http://www.jstor.org/stable/3083351>

6. Public choice & political economy

Preference revelation and aggregation. Arrow's Impossibility Theorem. Voting models. Theories of efficient politics and social conflict. New contract theory and the scope of government.

*Gruber (2016), ch. 9

*Acemoglu, D. (2003) "Why Not a Political Coase Theorem? Social Conflict, Commitment, and Politics," *Journal of Comparative Politics* 31: 620-652. <https://economics.mit.edu/files/4461>

A Shleifer (1998), "State versus Private Ownership", *Journal of Economic Perspectives*, 12:4, Fall, 133-150. <http://www.jstor.org/stable/2646898>

Arrow, K.J. (1950), "A Difficulty in the Concept of Social Welfare," *Journal of Political Economy* 58(4), pp 328-346.

Persson, T. and G Tabellini (2002), "Political economics and public finance", in Auerbach, A. and M. Feldstein (eds.), *Handbook of Public Economics*, Vol III, North-Holland: Amsterdam., see especially pp 1-25.
(<http://papers.nber.org/papers/W7097>).

O Hart, A Shleifer and R Vishny (1998), "The proper scope of government: Theory and an application to prisons," *Quarterly Journal of Economics*, 112:4, 1127-1161. <http://www.jstor.org/stable/2951268>

PART III – Social Insurance

7. Social insurance: General Principles

The value of insurance. Rationale social insurance: Asymmetric information and adverse selection. Problems with social insurance: Crowd-out and moral hazard. Applications to Unemployment Insurance and Disability Insurance.

* Chapters 12 and 14 in Gruber (2016).

* Meyer, B. D. (2002). "Unemployment and workers' compensation programmes: rationale, design, labour supply and income support." *Fiscal Studies* 23(1), 1-49.

Chetty, Raj, A general formula for the optimal level of social insurance. *Journal of Public Economics*, 90(10-11):18791901, 2006.

8. Retirement Pensions

Rationale for public intervention in retirement pensions. Funded versus unfunded ("pay-as-you-go") state pensions. The Pensions "crisis." Equity and efficiency considerations. Crowd-out and behavioural frictions.

*Gruber (2016), ch 13 (state pensions: US issues), ch 12 (social insurance)

*R Chetty, J N Friedman, S Leth-Petersen, T Nielsen and Tore Olsen (2014). "Active vs. Passive Decisions and Crowdout in Retirement Savings Accounts: Evidence from Denmark," *Quarterly Journal of Economics* 129(3): pp. 1141-1219.

*Barr (2012), Ch. 7.

*N Barr (2006), 'Pensions: Overview of the Issues', Oxford Review of Economic Policy, Vol. 22. No. 1, Spring, pp. 1-14.
<http://oxrep.oxfordjournals.org/cgi/reprint/22/1/1?ijkey=xUhuLJ3z5zjh3d8&keytype=ref>

N Barr and P Diamond (2009), 'Reforming Pensions: Principles, analytical errors, and policy directions' *International Social Security Review*, Vol 62, No. 2, pp. 5-29.
<https://economics.mit.edu/files/4025>

N Barr and P Diamond (2006), 'The Economics of Pensions', *Oxford Review of Economic Policy*, Vol. 22. No. 1, Spring, pp. 15-39.
<http://oxrep.oxfordjournals.org/cgi/reprint/22/1/15?ijkey=9DjQZbG8zPR17qI&keytype=ref>

9. Health

Reasons for government intervention in health care markets. The moral hazard cost of subsidized health insurance and the price elasticity of health care demand. Optimal health insurance. The effect of public health insurance on health outcomes. The rising health care expenditures over time.

* Chapters 15 and 16 in Gruber (2016).

* Poterba, J. (1995). "Government Intervention in the Markets for Education and Health Care: Why and How?" In V. Fuchs (ed.), *Individual and Social Responsibility*, University of Chicago Press, Chicago.

*Baicker, K. and A. Finkelstein, "The Oregon Health Insurance Experiment." An overview of the results of this large-scale study is at <https://www.nber.org/oregon/1.home.html> . Read the "Home," "Background," and "Results" Sections. You may also read the published studies (under "Publications") if you wish, as supplementary material.

*Goldin, J., I. Lurie, J. McCubbin (forthcoming). "Health Insurance and Mortality: Empirical Evidence from Taxpayer Outreach." *Quarterly Journal of Economics*, forthcoming. <https://www-cdn.law.stanford.edu/wp-content/uploads/2019/12/GLM-08-24-20-main.pdf>

Currie, J. and J. Gruber (1996). "Saving Babies: The efficacy and Cost of Recent Changes in the Medicaid Eligibility of Pregnant Women." *Journal of Political Economy* 104, 1263-1296.

Propper, C. (2001). "Expenditure on Healthcare in the UK: A Review of the Issues." *Fiscal Studies* 22(2), 151-183.

Raj Chetty, Michael Stepner, Sarah Abraham, Shelby Lin, Benjamin Scuderi, Nicholas Turner, Augustin Bergeron and David Cutler (2016) "The Association Between Income and Life Expectancy in the United States, 2001-2014" *The Journal of the American Medical Association* 315(16): 1750-1766, 2016

http://librarysearch.lse.ac.uk/44LSE_VU1:CSCOP_ALL:TN_medline27063997

<http://jama.jamanetwork.com/gate2.library.lse.ac.uk/article.aspx?articleid=2513561>

Zarek Brot-Goldberg, Amitabh Chandra, Benjamin R. Handel, Jonathan T. Kolstad (2017) "What Does a Deductible Do? The Impact of Cost-Sharing on Health Care Prices, Quantities, and Spending Dynamics" *Quarterly Journal of Economics* 132(3): 1261-1318.

10. Behavioral Public Economics

Empirical evidence of mistakes. New policy tools from behavioral economics. Rethinking old policy tools in light of mistakes. Regulation and consumer protection. Optimal policy and irrational behaviour: is welfare economics doomed?

*J Choi, D Laibson, B Madrian, and A Metrick (2004) "For Better or For Worse: Default Effects and 401(k) Savings Behavior" in David Wise, ed., *Perspectives in the Economics of Aging*. Chicago, IL: University of Chicago Press, 2004, pp. 81-121. [<http://www.economics.harvard.edu/faculty/laibson/files/forbetter.pdf>]

*B Handel (2013). "Adverse Selection and Inertia in Health Insurance Markets: When Nudging Hurts." *American Economic Review* 103(7), pp. 2643-2682.

*B Handel and J Schwartzstein (2018), "Frictions or Mental Gaps: What's Behind the Information We (Don't) Use and When Do We Care." *Journal of Economic Perspectives* 32(1) pp 155-178.

S Agarwal, J C Driscoll, X Gabaix, and D Laibson (2009). "The Age of Reason: Financial Decisions over the Life-Cycle with Implications for Regulation." *Brookings Papers on Economic Activity* 2009(2), pp. 51-117.

B D Bernheim and A Rangel (2009), "Beyond Revealed Preference: Choice-Theoretic Foundations for Behavioral Welfare Economics", *Quarterly Journal of Economics*, 124(1), pp. 51-104. especially pp. 51-61 and Section 4.

PART IV – Inequality & Taxation

1. Income and Wealth Inequality

Key concepts and data on inequality. The evolution of factor shares. The estimation of income and wealth inequality. Estimates of income and wealth inequality and ongoing debates. Global inequality. Intergenerational mobility.

* Piketty, T and E. Seaz (2003), "Income Inequality in the United States, 1913-1998" *Quarterly Journal of Economics* 118(1), pp 1-39. (Updated data available [here](#)).

Autor, D. H., Dorn, D., & Hanson, G. H. (2016). The China shock: Learning from labor-market adjustment to large changes in trade. *Annual review of economics*, 8, 205-240.

Autor, D. (2014). "Skills, education, and the rise of earnings inequality among the other 99 percent". *Science*, 344 (6186), 843-851.

Bertrand, M., & Mullainathan, S. (2001). Are CEOs Rewarded For Luck? The Ones Without Principals Are. *Quarterly Journal of Economics*.

Goldin, Claudia Dale and Lawrence F. Katz (2008). *The Race Between Education and Technology*. Cambridge, Mass.: Belknap Press of Harvard University Press, ISBN 978-0-674-02867-8

Karabarbounis, L. and Neiman, B. (2014), "The Global Decline of the Labor Share," *Quarterly Journal of Economics* 129(1), pp. 61-103.

Piketty, T., G. Zucman and E. Saez. (2018) "Distributional National Accounts: Methods and Estimates for the United States." *Quarterly Journal of Economics* 133(2) pp 533-609.

Piketty, T. (2014). *Capital in the 21st century*. Cambridge: Harvard University Press. (Introduction)

Piketty, T. and G. Zucman (2014). "Capital is Back: Wealth-Income Ratios in Rich Countries, 1700-2010" *Quarterly Journal of Economics* 129(3), 1255-1310.

Piketty, T., Saez, E., & Stantcheva, S. (2014). Optimal Taxation of Top Labor Incomes: A Tale of Three Elasticities. *American Economic Journal: Economic Policy*, 6(1), 230–271. <https://doi.org/10.1257/pol.6.1.230>

Piketty, T. (2011). "On the Long-Run Evolution of Inheritance: France 1820-2050." *Quarterly Journal of Economics* 126(3), 1071-1131.

2. Tax Incidence

Defining incidence. Partial equilibrium analysis of simple incidence problem and the role of elasticities. General equilibrium analysis. The efficiency cost of taxation. New behavioural research in tax salience.

*Gruber (2016), ch. 19.

Chetty, A Looney and K Kroft (2009) "Salience and Taxation: Theory and Evidence", *American Economic Review* 99:4 (September), 1145-1177. (see, especially, pp 1145-1149, 1175-1176) [<http://dx.doi.org/10.1257/aer.99.4.1145>]

Fullerton, D and G Metcalf (2002), "Tax incidence", in A Auerbach and M Feldstein, eds., *Handbook of Public Economics*, Amsterdam: Elsevier, Vol. 4, pp. 1787-1872. (Available as NBER W8829: <http://www.nber.org/papers/w8829>)

Rothstein (2008) "The Unintended Consequences of Encouraging Work: Tax Incidence and the EITC", Princeton University, CEPS Working paper no. 165, May 2008. Sections 1,8 only.
[<http://www.princeton.edu/ceps/workingpapers/165rothstein.pdf>]

Seiler, Stephan, Anna Tuchman, and Song Yao. 2021. 'The Impact of Soda Taxes: Pass-Through, Tax Avoidance, and Nutritional Effects'. *Journal of Marketing Research* 58 (1): 22–49.
<https://doi.org/10.1177/0022243720969401>.

3. Theory of labour supply

The theory of tax and labour supply: income vs substitution effects, hours worked vs labour force participation.

* Chapter 21 in Gruber (2016).

Saez, E. (2002). Optimal income transfer programs: intensive versus extensive labor supply responses. *The Quarterly Journal of Economics*, 117(3), 1039-1073.

4. Empirical evidence on labour supply

Evidence on tax and labour supply

* Eissa, N. (1995). "Taxation and Labor Supply of Married Women: The Tax Reform Act of 1986 as a Natural Experiment." NBER Working Paper No. 5023.

Blundell, R. (2001). "Welfare Reform for Low Income Workers." *Oxford Economic Papers* 53, 189-214. Or, alternatively, "Evaluating the Labour Supply Responses to 'In-Work' Benefit Reforms for Low Income Workers," in M. Buti, P. Sestito, and H. Wijkander (eds.), *Taxation, Welfare and the Crisis of Unemployment in Europe*, Edward Elgar, Cheltenham.

Burtless, G., & Hausman, J. A. (1978). The effect of taxation on labor supply: Evaluating the Gary negative income tax experiment. *Journal of Political Economy*, 86(6), 1103-1130

Eissa, N. and J. Liebman (1996). "Labor Supply Response to the Earned Income Tax Credit." *Quarterly Journal of Economics* 61, 605-37.

Heckman, J. J. (1993). "What Has Been Learned About Labor Supply in the Past Twenty Years?" *American Economic Review Papers and Proceedings* 83, 116-121.

Keane, M. P. (2011). Labor Supply and Taxes: A Survey. *Journal of Economic Literature*, 49(4), 961-1075. <https://doi.org/10.1257/jel.49.4.961>

5. Taxes, transfers, and migration

The effect of local taxes on migration within a country. The effect of taxes on international migration. The effect of welfare benefits on migration.

* Kleven, H. J., C. Landais, and E. Saez (2009). "Taxation and the International Mobility of Superstars: Evidence from the European Football Market."

Agersnap, O., Jensen, A., & Kleven, H. (2019). The Welfare Magnet Hypothesis: Evidence From an Immigrant Welfare Scheme in Denmark. *American Economic Review Insights*.

Borjas, G. J. (1999). "Immigration and Welfare Magnets." *Journal of Labor Economics* 17, 607-637.

Kleven, H., Landais, C., Muñoz, M., & Stantcheva, S. (2020). *Taxation and Migration: Evidence and Policy Implications*.

Kleven, H. J., Landais, C., Saez, E., & Schultz, E. (2014). Migration and Wage Effects of Taxing Top Earners: Evidence from the Foreigners' Tax Scheme in Denmark*. *The Quarterly Journal of Economics*, 129(1), 333-378. <https://doi.org/10.1093/qje/qjt033>

6. Evasion and enforcement

Evidence on avoidance & evasion. A model of tax evasion. Understanding the enforcement challenge for developing countries.

*Kleven, H. J., Knudsen, M. B., Kreiner, C. T., Pedersen, S., & Saez, E. (2011). Unwilling or Unable to Cheat? Evidence From a Tax Audit Experiment in Denmark. *Econometrica*, 79(3), 651–692. <https://doi.org/10.3982/ECTA9113>

* Gordon, R. and W. Li (2009). "Tax structures in developing countries: Many puzzles and a possible explanation." *Journal of Public Economics* 93, 855-866.

Allingham, M. G., & Sandmo, A. (1972). Income tax evasion: A theoretical analysis. *Journal of public economics*, 1(3-4), 323-338.

Kleven, H., C. Kreiner, and E. Saez (2016). "Why Can Modern Governments Tax So Much? An Agency Model of Firms as Fiscal Intermediaries." *Economica* 83, 219-246.

Miller, H., Pope, T., & Smith, K. (2024). Intertemporal Income Shifting and the Taxation of Business Owner-Managers. *The Review of Economics and Statistics*, 106(1), 184–201. https://doi.org/10.1162/rest_a_01166

Saez, E., Slemrod, J., & Giertz, S. H. (2012). The Elasticity of Taxable Income with Respect to Marginal Tax Rates: A Critical Review. *Journal of Economic Literature*, 50(1), 3–50. <https://doi.org/10.1257/jel.50.1.3>

7. Elasticity of taxable income

The long-run evolution of top income shares and top marginal tax rates. The elasticity of taxable income: concept, policy relevance, and estimates. The high-income Laffer curve.

* Saez, E., J. Slemrod, and S. Giertz (2009). "The Elasticity of Taxable Income with Respect to Marginal Tax Rates: A Critical Review." *Journal of Economic Literature*.
<http://emlab.berkeley.edu/users/saez/saez-slemrod-giertzNBER09.pdf>

Saez, E. (2010). Do Taxpayers Bunch at Kink Points? *American Economic Journal: Economic Policy*, 2(3), 180–212.

Feldstein, M. (1995). "The Effect of Marginal Tax Rates on Taxable Income: A Panel Study of the 1986 Tax Reform Act." *Journal of Political Economy* 103, 551–572.

8. Optimal income taxation

The fundamental theorems of welfare economics and the informational constraint in income taxation. The efficiency cost of income taxation. The optimal income tax problem. The relationship between optimal income taxation and the Laffer curve. The optimal top tax rate.

* Chapter 20 in Gruber (2016).

* Saez, E. (2001), "Using Elasticities to Derive Optimal Income Tax Rates," *Review of Economic Studies* 68: 205-229.

Diamond and Saez. (2011) The case for a progressive tax: From basic research to policy recommendation. *Journal of Economic Perspectives*, 25(4): 165- 190.

Kuziemko, I., Norton, M. I., Saez, E., & Stantcheva, S. (2015). How Elastic Are Preferences for Redistribution? Evidence from Randomized Survey Experiments. *American Economic Review*, 105(4), 1478–1508.
<https://doi.org/10.1257/aer.20130360>

9. Improving targeting

Reducing moral hazard: tagging, in-kind benefits, and ordeals. Lessons from the U.S. welfare reform efforts. Commodity taxation.

* Chapter 17, 20 in Gruber (2016).

Akerlof, G. A. (1978). The Economics of 'Tagging' as Applied to the Optimal Income Tax, Welfare Programs, and Manpower Planning. *American Economic Review*, 68(1), 8–19.

Atkinson, A., & Stiglitz, J. (1976). The design of tax structure: Direct versus indirect taxation. *Journal of Public Economics*, 6(1–2), 55–75.

Currie, J. (2004). "The Take Up of Social Benefits." NBER Working Paper No. 10488.

Deshpande, M. and Y. Li. (2019) "Who is Screened Out? Application Costs and the Targeting of Disability Programs." *American Economic Journal: Economic Policy* 11(4): 213-248.

Nichols, A. L. and R. Zeckhauser (1982). "Targeting Transfers through Restrictions on Recipients." *American Economic Review* 72(2), 372-77.

10. Taxation and savings

Facts about the distribution of wealth. The theory of how taxation affects savings. The two-period "Fisher" life-cycle model of saving. Problems with the standard life-cycle model. Behavioural models of saving. Optimal taxation of savings.

* Gruber (2011), ch 22

Adam, S., & Miller, H. (2021). The economic arguments for and against a wealth tax. *Fiscal Studies*, 42(3–4), 457–483. <https://doi.org/10.1111/1475-5890.12288>

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