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Mini Course “Theory of optimal taxation”

The aim of the course is to familiarize students with the theory of optimal taxation. We will begin with an introduction to the equity-efficiency tradeoff that is at the core of this theory (Chapter 1). We will then give an overview of the classical results in the theory of optimal taxation (Chapter 2). The techniques that are needed to obtain optimal tax formulas will also be covered (Chapter 3). Finally, we will compare the normative prescriptions of optimal tax theory with political economy analyses of redistributive taxation (Chapter 4).

I. The equity-efficiency tradeoff

1. Linear income taxation
2. Optimal non-linear taxation with two types

II. Classical results from the theory of optimal taxation

1. Optimal commodity taxation
2. Optimal income taxation
3. Direct versus indirect taxation
4. Optimal capital taxation

III. Deriving optimal tax formulas

1. Mechanism design
2. The perturbation method

IV. Political economy approaches

1. Median voter results for linear income taxation
 - The prediction of Meltzer and Richard
 - Luck versus effort
2. Probabilistic voting
3. Median voter results for non-linear income taxation

References

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