The purpose of these lectures will be to study the main results from the optimal tax literature that have been relevant for tax policy. The following topics will be discussed, though some will be in much more detail than others. The readings listed at the end are suggested sources for following up some of the material in the lectures. Many of the theoretical results considered have influenced the recent Mirrlees Review of the UK tax system. Both the report and the background studies provide useful summaries of the use of optimal tax theory in practice.


1 Optimal Linear Tax Analysis

Representative Household Models: Efficient Taxation

a. Ramsey’s optimal tax rule
b. The Corlett-Hague Theorem
c. Conditions for uniform commodity taxes
d. Externalities

Heterogeneous Households: Linear Progressive Income Taxation

a. Social welfare functions and aversion to inequality
b. First-best outcomes
c. Optimal linear progressive income tax
d. Conditions for uniform commodity taxes
e. The Production Efficiency Theorem
2 Optimal Nonlinear Tax Analysis

Optimal Nonlinear Taxation
a. Two wage-type case
b. Multiple discrete types
c. Continuous wage-types
d. Interpretation
e. The maximin case
f. Extensive margin labor supply

Income versus Commodity Taxation
a. The Atkinson-Stiglitz Theorem
b. Generalization of the Atkinson-Stiglitz Theorem
c. Differential taxation of leisure complements

3 Two-Period Analysis and Capital Income Taxation

Representative Household Models
a. The Corlett-Hague analogue
b. Overlapping-generations case
c. Time-consistent taxation
d. Time-inconsistent preferences
e. Bequests

Two Wage-Type Nonlinear Taxation
a. Identical preferences
b. Different discount factors
c. Age-dependent taxation
d. Uncertain future wage rates

Extensions
a. Liquidity constraints
b. Human capital accumulation
c. Uncertain earnings
4 Further Issues
  a. Marginal cost of public funds
  b. Time-using consumption
  c. Minimum wage
  d. In-kind transfers
  e. Workfare
  f. Involuntary unemployment
References


Boadway, Robin and Firouz Gahvari (2006), ‘Optimal Taxation with Consumption Time


Mirrlees, James, Stuart Adam, Timothy Besley, Richard Blundell, Stephen Bond, Robert...


