

17P026

Macroeconomics: Public Finance

Fall Term - 3 ECTS

Mandatory Course

Prof. Raül Santaeuilàlia-Llopis

Prerequisites to Enroll

None.

Overview and Objectives

In 2009, OECD countries used more than 20% of their national incomes for public social spending (pensions, health system, income support and other social programs). Another 5% was spent on public education. These numbers are much larger in some developed countries and fast growing in many developing ones. These are big numbers, and successful public policies can make a difference for the lives of millions. In this course, we will study two building blocks of modern macroeconomics that are critical for a better understanding of how several government programs affects economic decisions. First, we will study how agents allocate time and resources over their life-cycle. Understanding the basic consumption-savings-labor supply decisions over the life-cycle can allow us to answer a wide range of policy questions: How do agents react to tax cuts/rebates? Why do agents responses differ by their characteristics (age, income, occupation etc.). Why do agents consumption drops so much upon retirement? Second, we will put different generations together in overlapping generations models and study how public policies that link generations, such as social security, education or environmental policies, work. We will try to understand, for example, the current crisis of the pay-as-you-go social security systems in the industrialized countries and what can be done about it.

Course Outline

1. Permanent Income Life Cycle Hypothesis (PILCH) Models

References:

Angus Deaton and Christina Paxson "Intertemporal Choice and Inequality Author(s)", *Journal of Political Economy*, Vol. 102, No. 3 (Jun., 1994), pp. 437-467

Mark Aguiar and Erik Hurst (2005). "Consumption versus Expenditure", *Journal of Political Economy*, 113(5), 919-948.

Dirk Krueger and Fabrizio Perri "How Households Respond to Income Shocks?" (under revision, July 2011).

2. Taxes and transfers

References:

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Diamond, Peter, and Emmanuel Saez. 2011. "The Case for a Progressive Tax: From Basic Research to Policy Recommendations." *Journal of Economic Perspectives*, 25(4): 165-90.

Guner, N., Kaygusuz, R. and G. Ventura. "Income taxation of U.S. households: Facts and parametric estimates", *Review of Economic Dynamics* October 2014, Volume 17, No 4, 559–581.

J. Heathcote, K. Storesletten, and G. Violante "Optimal Tax Progressivity: An Analytical Framework" (under revision, February 2016)

3. Overlapping Generations Models and Pay-as-you-go Social Security systems

Aiyagari, S. Rao, 1987: "Intergenerational linkages and government budget policies", Federal Reserve Bank of Minneapolis Quarterly Review.

Aubuchon, Craig P., Conesa, Juan Carlos and Carlos Garriga (2011), "A Primer on Social Security Systems and Reforms", *Federal Reserve Bank of St Louis Review* 93, 19-36, 2011.

Diamond, Peter, 1965: "National debt in a Neoclassical growth model", *American Economic Review*, 55, 5, 1126-1150.

Dirk Krueger and Alexander Ludwig "On the optimal provision of social insurance: Progressive taxation versus education subsidies in general equilibrium", *Journal of Monetary Economics*, Volume 77, February 2016, Pages 72–98

Required Activities

Participation in class is a must. There will be homework assignments through the course. Students are highly encouraged to discuss these exercises in groups to detect difficulties and to develop their expertise in solving them.

Evaluation

The final grade will be based on three problem sets (30% each) and a final exam (70%). The exam will cover only the material reviewed in class.

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Competences

- To (be able to) communicate with determination and in the English Language, the results and implications of the required analytical study using a language that the receiver can relate to.
- To possess and understand the knowledge that provides a basis or opportunity to be original in the development and / or application of ideas, often in a research context.
- That students know how to apply the acquired knowledge and their ability to solve problems in new or unfamiliar environments within broader (or multidisciplinary) contexts related to their field of study.
- That the students be able to communicate their conclusions and the knowledge and the ultimate reasons that sustain them to both, specialized and non-specialized publics in a clear and unambiguous way.
- That students possess the learning skills that allow them to continue studying in a way that will be largely self-directed or autonomous.
- To identify and apply the insights of the theory, the models, and the analytical tools of modern economy to its global dimension.
- Understand and apply the Economic Theory and statistical models of the design of the evaluation of public policies.
- Understand and apply the quantitative methods used to solve complex problems of the economy.
- Evaluate, with theoretical and quantitative instruments, complex realities of the economy to understand its functioning.

Learning Outcomes

- Knows rigorously the economic theory of design and evaluation of public policies.

Materials

The classes will be based on lecture notes. There is a large set of consumption and quantitative macro books that the students can find useful at different stages of the course.

- Ljungqvist, L., and T. Sargent (2012): Recursive Macroeconomic Theory, MIT press. (*Advanced Level*)
- Dirk Krueger's lecture notes on Consumption (*Advanced Level*)
- Stephen Williamson (2013): Macroeconomics (*Intermediate Level*)