Overview and Objectives

The goal of the course is to study fiscal policy in a macroeconomic context, using dynamic equilibrium models. We study how to tax, who to tax, and when to tax. We discuss issues of efficiency, countercyclical policy along the business cycles, when to issue debt and what kind of debt. Automatic stabilizers. These issues are all crucial to the understanding of macroeconomics in general and, in particular, in the current context where the fiscal stance of several countries leads to a lot of uncertainty. We study these issues in dynamic equilibrium models, study issues of fiscal sustainability, and interactions between fiscal and monetary policy and empirical measurements of effects of taxation and debt.

A useful textbook will be


Course Outline

1. INTRODUCING FISCAL POLICY IN DSGE MODELS


2. EMPIRICAL ASPECTS: MEASURES OF TAX RATES, FISCAL MULTIPLIERS

Calculation of effective marginal tax rates, empirical measures. Calibration of tax policy reforms through the lens of DSGE models. Effects of fiscal policy contractions on output, fiscal multipliers.

3. FISCAL/MONETARY INTERACTIONS, GOVERNMENT DEBT, FISCAL SUSTAINABILITY.

Fiscal and monetary policy interactions. Friedman rule, the Phelps critique, seignorage. DSGE models of government debt, role of debt as a stabilizer. Models of fiscal policy with incomplete markets. Measures of fiscal sustainability.

4. EMPIRICAL ASPECTS: EFFECTS OF DEFICIT AND DEBT, INFLATION

Empirical effects of high government debt or high deficit. Interaction with inflation as a stabilizer.

Required Activities

There will be problem sets, which are intended to put at work the ideas introduced in class. Students are highly encouraged to discuss these exercises to detect difficulties and to develop their expertise in solving them.
Fiscal Policy

Evaluation

Materials

1. INTRODUCING FISCAL POLICY IN DSGE MODELS


2. EMPIRICAL ASPECTS: MEASURES OF TAX RATES, FISCAL MULTIPLIERS


3. FISCAL/MONETARY INTERACTIONS, GOVERNMENT DEBT, FISCAL SUSTAINABILITY.


**4. EMPIRICAL ASPECTS: EFFECTS OF DEFICIT AND DEBT, INFLATION**


C. Reinhart , K. Rogoff (2009) This Time is Different, Princeton University Press

T.J. Sargent (2011) "U.S. then, Europe now", Nobel lecture, working paper NYU