

PUBLIC FINANCE SYLLABUS [SPRING 2025]

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Office hours: Wednesday 15:00-17:00

Class: Friday 15:00-18:00, room 606

Useful Textbooks

- **Acemoglu, A.** *Political Economy Lectures Notes*. <https://economics.mit.edu/files/8753>
 - **Atkinson, A. and Stiglitz, J.** (2015). *Lectures in Public Economics (Updated Edition)* New York, NY: McGraw Hill.
 - **Cochrane J. H.** (2023). *The Fiscal Theory of Price Level*. Princeton University Press.
 - **Hindriks, J. and Myles, G.** (2013). *Intermediate Public Economics*. The MIT Press.
 - **McCarty N., Meirowitz, A.** (2007). *Political Game Theory: An Introduction*. Cambridge University Press.
 - **Persson, T. and Tabellini, G.** (2002) *Political Economics: Explaining Economic Policy*. The MIT Press.
 - **Wickens M.** (2012). *Macroeconomic Theory: A Dynamic General Equilibrium Approach*. Princeton University Press
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A. THEORETICAL FRAMEWORK

A1. Benefits from state intervention: Public Goods (A Refresher)

(*) Hindriks, J., Myles, G. (2013). *Intermediate Public Economics*. The MIT Press. [chapter5]

Myles, G. (1995). *Public Economics*. Cambridge University Press [chapter5]

(*) Fehr, E., Gächter, S., (2000). Cooperation and Punishment in Public Goods Experiments. *American Economic Review* 90, 4 980-994

(*) Fehr, E., Gächter, S., (2002). Altruistic punishment in humans. *Nature* 415, 137–140.

Henrich, J., Boyd, R., Bowles, S., Camerer, C., Fehr, E., Gintis, H., McElreath, R., (2001). In search of homo economicus: Behavioral experiments in 15 small-scale societies. *American Economic Review* 91, 73–78.

Herrmann, B., Thöni, C., Gächter, S., (2008). Antisocial punishment across societies. *Science* 319, 1362-67.

A2. Social Welfare, Social Choice and the Median Voter Theorem

(*) Acemoglu, A. *Political Economy Lectures Notes* [chapter4]

McCarty N., Meirowitz, A. (2007). *Political Game Theory: An Introduction*. [chapter 4]

(*) Persson, T. and Tabellini, G. (2002) *Political Economics: Explaining Economic Policy*, The MIT Press. [chapters 2 and 3]

A3. Parties competition and the Downsian Policy Convergence Theorem

(*) Acemoglu, A. *Political Economy Lectures Notes* [chapter4]

McCarty N., Meirowitz, A. (2007). *Political Game Theory: An Introduction*. [chapter5]

(*) Persson, T. and Tabellini, G. (2002) *Political Economics: Explaining Economic Policy*, The MIT Press. [chapters 2 and 3]

Adams, J., Haupt, A., Stoll, H., (2009). What Moves Parties? The Role of Public Opinion and Global Economic Conditions in Western Europe. *Comparative Political Studies* 42 (5):611–39

Adams, J., Clark, M., Ezrow, L., Glasgow, G., (2004). Understanding Change and Stability in Party Ideologies: Do Parties Respond to Public Opinion or to Past Election Results? *British Journal of Political Science* 34, 589–610

Ezrow, L., Hellwig, T., (2014). Responding to voters or responding to markets? Political parties and public opinion in an era of globalization. *International Studies Quarterly* 58, 816-827

Klüver, H., Spoon, J.-J., (2016). Who Responds? Voters, Parties and Issue Attention. *British Journal of Political Science* 46, 633-654.

A4. Beyond Single-Peaked Preferences. Probabilistic Voting

Acemoglu, A. *Political Economy Lectures Notes*. <https://economics.mit.edu/files/8753> [Section: Probabilistic Voting pp.101-107]

Baron, D., (1994). Electoral competition with informed and uninformed voters. *American Political Science Review* 88, 33-47.

Becker, G., (1983). A Theory of Competition Among Pressure Groups for Political Influence. *Quarterly Journal of Economics* 98, 371-400.

(*) Persson, T. and Tabellini, G. (2002) *Political Economics: Explaining Economic Policy*, The MIT Press. [Section: Probabilistic Voting and Lobbying pp.52-62]

B. ECONOMIC APPLICATIONS

B1. Democracy and Fiscal redistribution

(*) Persson, T. and Tabellini, G. (2002) *Political Economics: Explaining Economic Policy*, The MIT Press. [Section: Redistributive distortionary Taxation pp.24-25]

(*) Acemoglu, D., Naidu, S., Restrepo, P., & Robinson, J. (2015). Democracy, redistribution and inequality. In Atkinson A., & Bourguignon F. (Eds.), *Handbook of Income Distribution*, Elsevier, 1885-1966.

(*) Acemoglu, D., Naidu, S., Restrepo, P., & Robinson, J. A. (2019). Democracy does cause growth. *Journal of political economy*, 127(1), 47-100.

Aidt, T., & Jensen, P. (2009). Tax structure, size of government, and the extension of the voting franchise in Western Europe, 1860–1938. *International Tax and Public Finance*, 16(3), 362-394.

(*) Kammas, P., Sarantides (2019). Do dictatorships redistribute more? *Journal of Comparative Economics* 47, 176 - 195

Meltzer A. and S. Richard, (1981). A rational theory of the size of government. *Journal of Political Economy* 89, 914-927.

B2. Preferences for redistribution

Alesina, A., Giuliano, P., (2011). Preferences for Redistribution, in A. Bisin and J. Benhabib (eds.), *Handbook of Social Economics*, North Holland.

(*) Alesina, A., La Ferrara, E., (2005). Preferences for Redistribution in the Land of Opportunities. *Journal of Public Economics* 89, 897–931.

(*) Alesina, A., Fuchs-Schuendeln, N., (2007). Good Bye Lenin (or not?) - The Effect of Communism on People's Preferences. *American Economic Review* 97, 1507-1528.

Benabou, R., Ok, E., (2001). Social Mobility and the Demand for Redistribution: the POUM Hypothesis. *Quarterly Journal of Economics* 116, 447–487.

(*) Giuliano, P., Spilimbergo, A., (2014). Growing up in a Recession. *Review of Economic Studies* 81, 787-817.

B3. The state from a historical perspective: Institutions and fiscal state capacity

Besley, T., and Persson, T. (2011). *Pillars of prosperity: The political economics of development clusters*. Princeton, NJ: Princeton University Press. [chapters 1 and 2]

(*)Aidt, T., Jensen, P. (2009). The taxman tools up: An event history study of the introduction of the personal income tax. *Journal of Public Economics* 93, 160-175.

Besley, T., and Persson, T. (2013). Taxation and development, in Auerbach, A, R. Chetty, M. Feldstein, and E. Saez (eds.) *Handbook of Public Economics*.

(*)Kammas, P., Sarantides, V., (2020). Democratisation and tax structure in the presence of home production: Evidence from the Kingdom of Greece. *Journal of Economic Behavior & Organization*, 177, 219-236.

(*) Hindriks, J., Myles, G. (2013). Intermediate Public Economics. The MIT Press. [chapter4]

C. The Macroeconomics of Public Finances

C1. A general equilibrium model with fiscal policy

Baxter, M., & King, R. G. (1993). Fiscal Policy in General Equilibrium. *The American Economic Review*, 83(3), 315–334.

Sims E. (2024). Lecture notes on Graduate Macro Theory II: Fiscal policy in the RBC model. ([link](#))

Wickens (2012). Macroeconomic Theory: A Dynamic General Equilibrium Approach. *Princeton University Press*. [Chapters 5 and 6]

C2. Monetary and fiscal policy interactions in a general equilibrium model

- Angeletos, G-M. and Lian, C. (2023). Determinacy without the Taylor Principle. *Journal of Political Economy*, 131 (8): 2125-2164.
- Blanchard, O. J. and Kahn, C.M. (1980). The solution of linear difference models under rational expectations. *Econometrica*, 48(5):1305-1311.
- Cochrane J. H. (2023). The Fiscal Theory of Price Level. *Princeton University Press*. [Chapters 1-4]
- Davig, T., & Leeper, E. (2007). Generalizing the Taylor Principle. *American Economic Review*, 97(3), 607–635.
- Farmer, R. E. A., Waggoner, D. F., & Zha, T. (2010). Generalizing the Taylor Principle: Comment. *American Economic Review*, 100(1), 608–617.
- Leeper, E. M., & Leith, C. (2016). Understanding inflation as a joint monetary–fiscal phenomenon. In J. B. Taylor & H. Uhlig (Eds.), *Handbook of Macroeconomics* (Vol. 2, pp. 2305-2415).
- Leeper, E. (1991). Equilibria under ‘active’ and ‘passive’ monetary and fiscal policies. *Journal of Monetary Economics*, 27(1), 129-147.
- Sargent, T. J., & Wallace, N. (1975). "Rational" expectations, the optimal monetary instrument, and the optimal money supply rule. *Journal of Political Economy*, 83(2), 241-254.
- Sims, C. A. (2004). Limits to inflation targeting. In B. S. Bernanke & M. Woodford (Eds.), *The Inflation-Targeting Debate* (pp. 283-310). *University of Chicago Press*.
- Woodford, M. (1998). Control of the public debt: A requirement for price stability? In G. Calvo & M. King (Eds.), *The Debt Burden and its Consequences for Monetary Policy* (pp. 117-158). *Palgrave Macmillan* UK.

Numerical methods:

<https://www.dynare.org/>

Sargent T. and Stachurski J., QuantEcon.

Stachurski, J. (2022). *Economic Dynamics: Theory and Computation* (2nd ed.). MIT Press.

Schmitt-Grohe S. and Uribe M.: Matlab toolbox for first- and second-order accurate approximations to the policy functions.

Date	Instructor	Topics
Friday 7/2	Pantelis Kammas	A1. Benefits from state intervention: Public Goods (A Refresher)
Friday 14/2	Pantelis Kammas	A2. Social Welfare, Social Choice and the Median Voter Theorem
Friday 21/2	Pantelis Kammas	A3. Parties competition and the Downsian Policy Convergence Theorem
Friday 28/2	Pantelis Kammas	A4. Beyond Single-Peaked Preferences. Probabilistic Voting
Friday 7/3	Vassilis Sarantides	B1. Democracy and Fiscal redistribution
Friday 14/3	Vassilis Sarantides	B2. Preferences for redistribution
Friday 21/3	Vassilis Sarantides	B3. The state from a historical perspective: Institutions and fiscal state capacity
Friday 28/3	Petros Varthalitis	C1. A general equilibrium model with fiscal policy
Friday 4/4	Petros Varthalitis	C2. Monetary and fiscal policy interactions in a general equilibrium model
Friday 11/4	Petros Varthalitis	C2. Monetary and fiscal policy interactions in a general equilibrium model
Friday 2/5		Brown bag seminar-Presentations