

Estate tax

Tax incidence

Flypaper theory of incidence: corporate

Consumption tax; savings

Capitalization: property tax

Efficiency: negative externalities

Marginal rates (rich/poor): means testing (e.g., child benefit)

Effective marginal rate

Earned Income Tax Credit

Rich; sub effects strong; tournaments; ceo

Deadweight loss; consumer surplus

Excess burden; amount by which burden exceeds tax bill

Multiplier

$$Y = C + G$$

$$Y = c_0 + \alpha Y + G \Rightarrow Y = \frac{c_0 + G}{1 - \alpha}$$

Sectoral Allocation

2 failures; collect and spend

Now suppose that the same family earns an additional 12,000 by, for example, having the primary earner work overtime or sending a secondary worker into the labor force. In that case, the federal subsidy shrinks, so the familys cost of health care rises to 12,700.

In other words, 2,800 of the 12,000 of extra income, or 23 percent, would be effectively taxed away by the governments new health care system.

That implicit marginal tax rate of 23 percent is a significant disincentive. And it comes on top of the explicit marginal tax rate the family already faces from income and payroll taxes. Altogether, many families would face marginal rates at or above the 50 percent level that animated the Reagan supply-side revolution.

“However, it does not address the single biggest criticism I have made on this blog, on TV, and elsewhere: that much of the stimulus spending (and many of the so-called tax cuts) goes only to persons and businesses in financial hardship, and thereby serves as a tax on success. In other words, stimulus spending is an implicit income tax, and thereby reduces national income rather than increasing it.

Much more focus should be on incentives for people and businesses to invest, produce and work. On the tax side, we should avoid programs that throw money at people and emphasize instead reductions in marginal income-tax rates – especially where these rates are already high and fall on capital income. Eliminating the federal corporate income tax would be brilliant.”

Two key equations describe the evolution of the economy:

$$\frac{c_{t+1}}{c_t} = \frac{1 + f'(k_{t+1})}{1 + \rho}$$

and

$$k_{t+1} - k_t = f(k_t) - c_t.$$

$$\frac{c_{t+1}}{c_t} = \frac{1 + \alpha A k_{t+1}^{\alpha-1}}{1 + \rho}$$

In steady state, we know consumption will be constant when

$$\alpha A k_{t+1}^{\alpha-1} = \rho$$

$$\Rightarrow k^* = \left(\frac{\alpha A}{\rho} \right)^{\frac{1}{1-\alpha}}$$

Then from the production function, $f(k) = Ak^\alpha$, we can get equilibrium output, $Y = Ak^\alpha = A \left(\frac{\alpha A}{\rho} \right)^{\frac{\alpha}{1-\alpha}}$.

From the capital accumulation equation, we have (since k is constant in steady state)

$$f(k_t) = Ak_t^\alpha = k_{t+1} - k_t + c_t = c_t$$

Income Differences $Y = AK^\alpha L^{1-\alpha}$: Geography/Institutions

Key is MPK

For balanced growth need a constant MPK

What matters is the stock of ideas (unlike capital)

Scale effect

Malthus

Complete model of growth

Economics of Innovation

$$C = F + wx$$

Marginal Cost Pricing

Price has two roles

Property Rights

Imperfect Competition

First Welfare Theorem