The objective of the course is to introduce the students to the study of fiscal policy and some of the ongoing academic debates.

We will look at fiscal policy from a positive and normative angles. In the first part, we will examine the macroeconomic effects of fiscal policy, for instance, the size of multipliers or the effects on different components of spending, both from a theoretical and empirical perspective. We will also analyse the interactions between fiscal and monetary policy. In the second part of the course we will look at optimal dynamic taxation policy.

The broader objective of the course is to expose the students to a number of advanced methods in macroeconomics. We will use Dynare to solve the dynamic stochastic general equilibrium models and STATA for the empirical applications. There is no textbook for the course. The topics covered and the reading list are as follows.

Introduction (1 lecture)

- Why is it important to study fiscal policy?
- Stylized facts: size and composition of government spending, taxation and government debt in the United States and OECD countries
- Methodological discussion: Positive and Normative analysis
- Simple model of government spending and Ricardian Equivalence
- Introduction to Dynare

Effects of fiscal policy in new-classical world (1 lecture)

- Effects of government consumption and investment
- Effects of government employment and wage


Effects of fiscal policy with frictions (3 lectures)

- Fiscal policy with labour market frictions
- Fiscal policy in an New-Keynesian model


Monetary-Fiscal Policy interactions (3 lectures)

- Intertemporal budget constraint of the Government
- Active and passive monetary and fiscal policy
- Fiscal Theory of Price Level


Empirical questions in fiscal policy (2 lectures)

• Identifying government spending and taxes shocks

• Sustainability of debt

• Estimating DSGE models using Dynare


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**Part II: Optimal taxation and debt (6 lectures)**

- Tax smoothing result
- Optimal taxation with complete markets
- Optimal taxation with market incompleteness
- Capital and labour taxation and the problem of time inconsistency


