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What is the question (of the paper)?

Is whether non-verifiable education expenses would affect the design of the optimal tax policy on capital and labor over time.

Why should we care about it?

In the existing dynamic Mirrlees literature, agents' heterogeneous skills are unobservable private information that change over time. The government wishes to redistribute income but cannot observe skills, leading to a non-degenerate tradeoff between equity and efficiency.

Thus, if we can understand the effect of non-verifiable education expenses, the government might redistribute the income more efficiently and fairly.

What is your (or the author's) answer?

As the results show, when there are only verifiable education expenses, even with skill shocks, the capital wedge and labor wedge in the first period are both zero.

Besides, the author also found out that non-verifiable education expenses and unobservable consumption, change the capital wedge from zero to a positive value and the labor wedge in period 1 from zero to a negative value. Moreover, while it is standard in the existing literature that the labor wedge is positive in the terminal period, when there are non-verifiable education expenses, the positive labor wedge in the terminal period is smaller than that when there are only verifiable education expenses. Thus, non-verifiable education expenses tend to lower the labor wedge.

How did you (or the author) get there?

The author extends the paper of Bovenberg and Jacobs (2005) and Stantcheva (2017) to a setting with a twist that education expenses may not be all verifiable. As a result, consumption is not directly observable.

Also, he follows Farhi and Werning (2013) and posits shocks to agents' skills. Agents undergo shocks to skill acquisitions over time. In addition to working and savings, agents choose consumption and education expenses in each period. The social planner chooses constrained efficient allocations that maximizes the utilitarian social welfare subject to resource constraints and incentive-compatibility constraints.