

# **Taxes, Transfers, and Government Insurance**

## **Applied Microeconomics**

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## **Taxation – what for?**

1. Resources for provision of public services / public goods
2. Redistribution
3. Insurance

# Consumption insurance

- Main prediction of dynamic models of individual behaviour: Marginal utility of consumption constant over time
- Subsumes all thoughts about taxation, especially 2. and 3.
- Redistribution is insurance under veil of ignorance
- Savings: self-insurance against future income changes

## **Crucial features of models**

- Income processes, transitory vs. permanent shocks
- Effort vs. luck, observability
- Determinants of wages
- Family formation, household economies of scale

## **Classification: 3 pillars**

- Taxes
- Targeted transfers
- Insurance

# Taxes

- Income
- Expenditures (VAT)
- Wealth / substance

# Transfers

- Means-tested
- Child benefits

# Insurance

- Pension (forced savings / longevity)
- Unemployment
- Disability
- Health / long-term care expenditures