

OPTIMAL GOVERNMENT POLICY: THEORY AND APPLICATIONS OF RECURSIVE CONTRACTS

1. Introduction

- a. The Time-Inconsistency Problem
- b. The Use of Optimal Control
- c. A Recursive Formulation: a Promised Value
- d. Numerical Solution Method: PEA

Main references: Ramsey (1927); Stokey, Lucas, Prescott (1989); Kydland and Prescott (1980); Abreu, Pearce and Stacchetti (1986, 1990); Marcet and Marimon (1999), den Haan and Marcet (1990).

2. Credible Government Policy

- a. Sustainable Plans
- b. Numerical Solution Method: APS

Main references: Chari and Kehoe (1990); Abreu, Pearce and Stacchetti (1986, 1990); Judd, Yeltekin and Conklin (2001), Sleet and Yeltekin (2000); Phelan and Stacchetti (2001), Fernandez-Villaverde and Tsyvinski (2003); Dominguez (2005).

3. Optimal Social Insurance

- a. No Commitment in Contracts
- b. Contracts with Hidden Information
- c. Contracts with Hidden Action

Applications:

- Borrowing and Lending Contracts
- Optimal Unemployment Insurance

Main references: Townsend (1982); Thomas and Worall (1988, 1990); Kocherlakota (1996); Atkeson (1991); Cole and Kocherlakota (2001); Shavell and Weiss (1979); Hopenhayn and Nicolini (1997); Alvarez and Jermann (2000); Pavoni (forth), Pavoni and Violante (2004)

4. Mirrlees Approach to Dynamic Optimal Taxation

Main references: Golosov, Kocherlakota and Tsyvinski (2003); Golosov and Tsyvinski (2005); Albanesi and Sleet (2005); Battaglini and Coate (2004); Kocherlakota (2005).

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