

Freie Universität Berlin
Prof. Dr. Dr. Giacomo Corneo

Theory of Public Debt

Lecture time and place: Wednesdays 4-7 p.m., Hs 105

Modul: Ausgewählte Themen der Steuertheorie und -politik – Master VWL #10143408

(Recognition for alternative module in consultation with the (public) economics program coordination possible)

Content: This course (in English) provides a mainly theoretical overview of the role played by public debt in the economy and discusses its links with tax policy both from a normative and positive perspective. In a first step, students are introduced to the notion of public debt and its relationships with various measures of the net worth of the public sector. Then, the intertemporal budget constraint of the government is defined and the notion of fiscal sustainability is discussed. We then analyze various models that offer competing views of the effects – if any – of public debt and the possibility of default. Thereupon the issue about the optimal management of public debt is attacked. In a further step, various politico-economics models are used to discuss the tendency of governments to overborrow and to assess specific rules and institutions aimed at counteracting that tendency. We then deal with the distinctive features of international lending and discuss country risk. The final part of the course applies the insights gained so far to illuminate the current challenges faced by the European Union with respect to fiscal policy. A complete reading list will be uploaded in the Blackboard.

Grade: Final written exam.