TAX SMOOTHING IN FRICTIONAL LABOR MARKETS-REVISITED

DEPARTMENT OF ECONOMICS VISITING SPEAKER:

DR. MEHRAB KIARSI

Dr. Mehrab Kiarsi, associate professor, Henan University, China

He is currently an associate professor in the school of economics at Henan University, China. He completed his PhD in economics in 2016 at the University of Montreal. During 2016-2018 he was an assistant professor in economics at Concordia University. He also was a research scholar in the Department of Economics at Columbia University between May 2018 to September 2019."

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This article studies optimal fiscal policy in a DSGE model with frictional labor markets where the government levies taxes on both consumption and labor income. The model is calibrated such that conditional on exogenous fiscal policy it generates empirically relevant labor market fluctuations. It then analytically proves that when workers' bargaining power is at its efficient level labor income should not be taxed in the long run. It also quantitatively shows that this result holds in the short run as well. In addition, the Ramsey-optimal fiscal policy calls for perfect consumption tax smoothing over time. The optimality of a zero long-run labor income tax is robust to the introduction of capital and capital income taxation. Moreover, it holds in a monetary economy with nominal non-state-contingent debt.

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3:00-4:30 P.M.

Arts and Administration Building, Room A1043

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