

- Main Research Question(s)
  1. What is the optimal tax schedule in an economy where individuals face idiosyncratic shocks to both income, and rates of return on wealth?
  2. Does the optimal tax schedule change when non-pecuniary motives for wealth accumulation are added?
- Summary of Related Literature
  - Optimal Taxation
    - \* Mirrlees (1971)
      - Seminal paper in optimal taxation
      - Formal characterization of the tradeoff between efficiency and redistributive motives
      - Problem: government sets optimal tax schedule to maximize social welfare function
      - Must satisfy its budget constraint, along with individual rationality constraint
      - Government can only observe income, not type
      - One finding: optimal top marginal rate is zero
    - \* Diamond (1998)
      - Alternative characterization of first-order conditions of the Mirrlees (1971)
      - Stronger case for very progressive taxation
      - Top rate of zero: minimal bearing on policy; rate need not slowly decline to zero
      - Generally: optimal marginal rate at a given income level depends on the elasticity of labor supply around this level (did Mirrlees show this?)
    - \* Saez (2001)
      - Building on Diamond (1998), uses elasticities observed in data to derive optimal marginal rate
  - Taxation of capital and capital income
    - \* Feldstein (1978)
    - \* Saez and Zucman (2019): meeting optimal progressivity requires taxes other than on income
    - \* Cite some Saez/Zucman/Piketty things
  - Idiosyncratic RoR shocks
    - \* Benhabib *et al.* (2011), Benhabib *et al.* (2015), Benhabib *et al.* (2019), Gabaix *et al.* (2016)
    - \* Pareto tail: need persistence to (a) have stationary dist and (b) match data
- Early Stages of Model
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