

Tax Distorted CE. || It is not a P.O.

There is a fiscal policy

- Cons<sup>m</sup> tax
- Investment tax,
- Labor Income tax
- Capital Income tax.
- Lump sum tax

CE but there is tax!

TDCE Allocation: →

- ① Feasibility constraint.
  - ② Law of motion.
  - ③ Implementability constraint
- Gives us a set of allocation for which fiscal policy raises satisfies govt budget.

Does it  
come from  
Ramsey  
problem?  
→  
(hook at  
decision)

## Ramsey Problem



To choose tax rates to maximize the welfare of the representative agent  
s.t. the constraints of the govt.  
budget be balanced in PV in  
the resulting CE.

From class notes:—

$\{g_t\}$  is given.

Optimal sequence of  $\tau_{kt}, \tau_{lt} - ?$

Is it an assumption that  $\tau_{kt} = \tau_{xt} = \tau_t > 0$