Optimal Progressive Taxation and Education Subsidies in a Model of Endogenous Human Capital Formation

Dirk Krueger
University of Pennsylvania, CEPR and NBER

Alexander Ludwig
MEA and University of Mannheim

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Abstract

In this paper we characterize, both theoretically and quantitatively, the optimal mix of progressive income taxes and education subsidies in a model with endogenous human capital formation, borrowing constraints and income risk.