

ECON 337: Economics of State and Local Governments

Silvia Vannutelli, Northwestern University

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E-mail: silvia.vannutelli@northwestern.edu

Office Hours: Monday 8.30-9.30AM, **via Zoom, by appointment through Canvas**

link: <https://northwestern.zoom.us/j/5648217496>

Class Hours: T/Th 11-12.20pm, Class Room: Frances Searle Building 1421

TA Session Hours: F 11-11.50am, Discussion Section Room: Frances Searle Building 1421

TA Office Hours: Th 9-11am, **by appointment, through Canvas** Room: KGH 3496

TA: Andrea Di Giovan Paolo, E-mail: andreadigiovanpaolo@u.northwestern.edu

Course Description

State and local governments play an essential role in individuals' day-to-day life, providing crucial public goods and services, such as education, transportation, healthcare and welfare. This course uses microeconomic theory and empirical evidence to acquaint students with various aspects of the subnational government sector, including expenditure, financing, and policy issues. We start by reviewing under which situations is the government provision desirable. We then study how levels of state goods and services are determined using voting and Tiebout models. We then explore the main sources of state and local governments' revenues - such as taxes and intergovernmental grants - and the main areas of spending - education, infrastructure, public welfare, economic development.

Throughout the course, we will think about how different policy choices affect social welfare and ultimately how local government decisions impact people lives. We will also consider the role of local politics in shaping governments' actions.

Materials

- Recommended Textbooks: State and Local Public Finance, 4th edition, by Ronald Fisher (ISBN: 9780765644275) ; Public Finance and Public Policy, 7th edition, by Jonathan Gruber (ISBN:9781319399030).
- Readings will be made available on Canvas or through Northwestern Library. Announcements about required readings will be made on a weekly basis, through Canvas. All assigned readings are considered **mandatory**, unless otherwise indicated. We will cover several empirical papers in class that you are expected to read in advance. Typically, this

will involve reading the abstract, introduction, and conclusion of the papers to get a general overview of the contribution, research question and methodological approach.

Prerequisites/Corequisites

Students must have taken ECON 310-1 or MMSS 211-1 and ECON 281 or ECON 381-1 or MATH 386-1 or IEMS 304 or STAT 350 to successfully enroll in this course.

Course Goals

1. Make you a better citizen and voter: if you understand what your governments do, you can hold your politicians accountable for their decisions and make better choices as citizen.
2. Make you a future policy maker: if you understand what your governments do, what policies work and why, you can become a policy-maker yourself and design better policies, improving societal welfare.
3. Make you a future consultant for the public sector (but also for the private sector - firms interact with governments all the time): if you understand what your governments do and what policies work and why, you can help governments work better. You can also use the ECON framework to evaluate current or proposed policies.
4. Learn crucial empirical methods used in frontier social science that would be handy in a number of different contexts - you will learn how to analyze data using modern quantitative methods and basic programming techniques to investigate policy questions and social problems.

Course Assessment and Grades

Assessment

This course has 3 components that will determine your final grade:

- **50%** of your grade will be determined by two in-class midterm exams (25 % each).

There are going to be two midterm exams. The second midterm will be a comprehensive one, covering the entire course material and also containing "big picture" questions to assess your overall mastery of the course. Exams feature a diversified portfolio of questions and topics designed to test your ability to apply economic reasoning to address policy questions and analyze issues faced by local governments. You should expect to find a combination of multiple-choice and True/False/Uncertain questions, some short-answer problems, and one or two longer essay-type questions.

Due to the substantial difficulties of administering additional examinations, there will be no make-up exams. At the end of the exam you will submit your work electronically via Crowdmark.

- **20%** of your grade will be determined by the final (take-home) research proposal.

The goal of this short research proposal is to stimulate your curiosity to develop a potential empirical project that you would like to explore in the near future. It will be at most three pages, it should include a main hypothesis/research question(s), a brief overview of the relevant literature in this area, a description of potential data to be used, and of an empirical strategy that would best answer your hypothesis. More guidelines will be provided later.

- **30%** of your grade will be determined by three problem sets (10 % each).

There will be three problem sets throughout the course, all involving empirical data analysis. These represent a key learning element of this course and aim at giving students hands-on experience in working with data to address key policy questions. The expectation is to use the statistical software program Stata 16 for them, but students are welcome to use other programs (e.g., SAS, SPSS, R, Python), provided that their code and work is clearly documented. TA sessions will provide the tools and coding support to carry out the problem sets. You are highly *encouraged* to work in groups (max. 4 people per group). However, you need to submit your own version of the problem set and you should ensure that any work you submit for evaluation is the result of your own research and that it reflects your own approach to the topic. You are required to list in the problem set the names of people you worked with.

Although attendance is not mandatory, it is expected, noticed, and appreciated, and will be awarded if you fall near a grading borderline.

Grades

You are responsible for monitoring your scores and status in the course. Your course grade will be based primarily on your ballpark grades on each exam, performance trends (improvement), total points earned, and the difficulty of the exams. Following economics department recommendations, I grade to the curve rather than using an absolute percentage standard. This means that a score of 75 does not automatically map to a C grade, but rather is considered relative to scores in this and previous classes; e.g., if a 75 were the high score, it would earn a high A, but if it were the low score, then it may earn a C- or lower.

Late Assignments and Re-grading

Problem sets are due by 11:59PM Chicago time of the indicated deadline. I encourage you to submit your work earlier in the day so that you avoid Wi-Fi interruptions, heavy Internet traffic, or forgetting to submit your work. After the deadline, assignments will be accepted for a 50% deduction to the score up to 2 days after the deadline. After this any assignments handed in will be given 0.

Occasionally, a student finds or suspects a grading error and requests that his/her exam be re-graded. This request should simply identify the part of problem in question (e.g., Q3a and Q3b); we can only grade the answer you originally submitted, not additional explanations. All re-grading requests must be made within one week of the day the graded exams are released. We spend a good amount of time and energy grading, so regrading requests are costly to us, and if requests were cost-less to students, one would expect overuse, so to discourage frivolous requests, one point (per question) will be deducted for each request that does not result in additional points earned (e.g., if Q3a and Q3b were graded correctly, then the penalty would be 1 point).

Submitting Your Work

The teaching assistants and I will use Canvas to streamline the grading and recording of your problem sets and exams. You submit your work through an emailed link, dragging PDFs or JPGs into fields, and then we can read these online, insert grading comments, automatically send your score to Canvas, and then allow you to peruse a digital version of your graded work.

Course Website

Canvas is your on-line resource for the class. Check the website at least twice a week for announcements, assignments, and grades. I also highly encourage you to use Canvas as a Discussion board to pose questions, and the TA will respond. This is valuable because other students often have the same question that you do and will benefit from seeing your interaction with your teaching fellow. Of course, feel free to email the TA directly as well if you prefer not to post your question publicly.

Course Policies

Office Hours and Communication

Your best way to contact me is by email. When sending email, please include ECON337 in the subject of your message. I will use Canvas to distribute materials and make announcements so please check Canvas and your NU e-mail daily. I will be available for office hours either in person or via Zoom <https://northwestern.zoom.us/j/5648217496> (my personal meeting room) on Tuesdays 1:30-12:30PM. All office hours are by appointment, you can sign up for a slot through Canvas.

Attendance Policy

Attendance is not mandatory but it is expected. No lecture notes or slides will be posted online. You are responsible for everything covered in class, including material not in the book and not posted on Canvas. If you miss all or part of a class, it is your responsibility to track down notes or any other information you may have missed.

Teaching Assistant and Discussion Sections

Our graduate teaching assistant, Andrea Di Giovan Paolo, will lead weekly discussion sections on Fridays. I expect you to attend section, as some information will only be provided there and we typically do not record or post that information. During a typical discussion section, the TA will be available to openly address your questions and help you with the assigned Problem Sets. Check Canvas for changes to office hours or for section materials.

Academic Integrity

Cheating is not tolerated in this class. Anyone found cheating on any test will receive a zero for that test. Any academic integrity violation will also be reported immediately to the Dean's office for academic discipline. While you are encouraged to form study groups to discuss assignments and lecture notes, your graded work must be a result of your independent effort. Students in this course are required to comply with the policies found in the booklet, "Academic Integrity at Northwestern University: A Basic Guide". All papers submitted for credit in this course must be submitted electronically unless otherwise instructed by the professor. Your written work may be tested for plagiarized content. For details regarding academic integrity at Northwestern or to download the guide, visit: <https://www.northwestern.edu/provost/policies/academic-integrity/index.html>.

Accessibility

Northwestern University is committed to providing the most accessible learning environment as possible for students with disabilities. Should you anticipate or experience disability-related barriers in the academic setting, please contact AccessibleNU to move forward with the university's established accommodation process (e: accessiblenu@northwestern.edu; p: 847-467-5530). If you already have established accommodations with AccessibleNU, please let me know as soon

as possible, preferably within the first two weeks of the term, so we can work together to implement your disability accommodations. Disability information, including academic accommodations, is confidential under the Family Educational Rights and Privacy Act.

COVID-19 Classroom Expectations

Students, faculty, and staff must comply with University expectations regarding appropriate classroom behavior, including those outlined below and in the Northwestern COVID-19 Code of Conduct (<https://www.northwestern.edu/communitystandards/about-us/northwestern-university-student-expectations-covid-19-code-of-conduct.html>).

With respect to classroom procedures, this includes:

- Policies regarding masking and social distancing evolve as the public health situation changes. Students are responsible for understanding and complying with current masking, testing, Symptom Tracking, and social distancing requirements.
- In some classes, masking and/or social distancing may be required as a result of an Americans with Disabilities Act (ADA) accommodation for the instructor or a student in the class even when not generally required on campus. In such cases, I will notify the class.
- No food is allowed inside classrooms. Drinks are permitted.
- Faculty may assign seats in some classes to help facilitate contact tracing in the event that a student tests positive for COVID-19. Students must sit in their assigned seats.

If a student fails to comply with the COVID-19 Code of Conduct or other University expectations related to COVID-19, I may ask the student to leave the class. I am asked to report the incident to the Office of Community Standards for additional follow-up.

To protect the health of our community, Northwestern University requires unvaccinated students who are in on-campus programs to be tested for COVID-19 twice per week.

Students who fail to comply with current or future COVID-19 testing protocols will be referred to the Office of Community standards to face disciplinary action, including escalation up to restriction from campus and suspension.

Exceptions to Class Modality

Class sessions for this course will occur in person, unless otherwise communicated. Individual students will not be granted permission to attend remotely except as the result of an Americans with Disabilities Act (ADA) accommodation as determined by AccessibleNU. If you are experiencing any symptoms of COVID do not attend class and update your Symptom Tracker application right away to connect with Northwestern's Case Management Team for guidance on next steps. Also contact me as soon as possible to arrange to complete coursework. Likewise, students who experience a personal emergency (e.g., a roommate, friend or family member tests positive) should contact me as soon as possible to arrange to complete coursework. I will arrange the possibility to attend the classroom remotely via Zoom, but no Zoom recordings will be provided.

Class Recordings

Unauthorized student recording of classroom or other academic activities (including advising sessions or office hours) is prohibited. Unauthorized recording is unethical and may also be a violation of University policy and state law. Students requesting the use of assistive technology as an accommodation should contact AccessibleNU. Unauthorized use of classroom recordings, including distributing or posting them, is also prohibited. Under the University's Copyright Policy, faculty own the copyright to instructional materials, including those resources created specifically for the purposes of instruction, such as syllabi, lectures and lecture notes, and presentations. Students cannot copy, reproduce, display, or distribute these materials. Students who engage in unauthorized recording, unauthorized use of a recording, or unauthorized distribution of instructional materials will be referred to the appropriate University office for follow-up.

Sexual Misconduct and Reporting

Northwestern University is committed to fostering an environment where students are safe and free from sexual misconduct. Confidential resources are available to those who have experienced sexual misconduct. Faculty, instructors,

and TAs are not confidential resources and are required to report incidents of sexual misconduct, whether discussed in your assignments or in person, to the Office of Equity, which can provide information about resources and options. I encourage students who have experienced sexual misconduct to talk with someone to get support. For more information, including how to request interim protective measures and academic accommodations or file a complaint, see the Get Help page.

Discrimination and Sexual Harassment

Northwestern University's Policies on Discrimination, Harassment, and Sexual Misconduct apply to all members of the University community, including students, staff, faculty, and third parties. Any student, staff, or faculty member, or third party, who believes that they have been discriminated against or harassed on the basis of their race, color, religion, national origin, sex, sexual orientation, gender identity, gender expression, pregnancy, parental status, marital status, age, disability, citizenship, veteran status, genetic information or any other classification protected by law, should contact the Office of Equity at (847) 467-6571. Additional information about the University's discrimination and harassment policies, including the campus resources available to assist individuals with discrimination or harassment concerns, is available online on the Office of Equity website, <https://www.northwestern.edu/equity/>. Students, staff, and faculty who report harassment, discrimination, or sexual misconduct are also protected under the University's Policy on Non-Retaliation, <https://www.northwestern.edu/provost/policies-procedures/community-conduct/non-retaliation.html>.

Support for Wellness and Mental Health

Northwestern University is committed to supporting the wellness of our students. Student Affairs has multiple resources to support student wellness and mental health. If you are feeling distressed or overwhelmed, please reach out for help. Students can access confidential resources through the Counseling and Psychological Services (CAPS), Religious and Spiritual Life (RSL) and the Center for Awareness, Response and Education (CARE). Additional information on all of the resources mentioned above can be found here:

<https://www.northwestern.edu/counseling/>
<https://www.northwestern.edu/religious-life/>
<https://www.northwestern.edu/care/>

Software

Problem sets are meant to be done using Stata, but you are welcome to use any other software, provided you provide a commented version of your code. However, the TA will provide support only on Stata program. Stata is available through Northwestern at <https://nuworkspace.northwestern.edu/>.

Here are some useful resources to learn STATA:

- Introduction to Stata: <https://sites.google.com/site/econometricsacademy/econometrics-software/stata>
- Stata Base Reference Manual: <https://www.stata.com/bookstore/base-reference-manual/><https://www.stata.com/bookstore/base-reference-manual/>
- Stata's suggested resources for learning Stata: <https://www.stata.com/links/resources-for-learning-stata/>
- The Stata Blog: <https://blog.stata.com/>
- UW-Madison SSCC: <http://www.ssc.wisc.edu/sscc/pubs/sfs/home.htm>

Tentative Course Schedule

The schedule is tentative and subject to change.

Week 01, 09/19 - 09/21: Introduction

The geography of mobility in the U.S. and the importance of local governments

Week 02, 09/26 - 09/28: Basic Concepts in (Local) Public Finance

Class 1: Why do we need (state & local) governments? What should they do?

Class 2: what determines what types of local public goods governments provide? The Tiebout Model

Week 03, 10/03 - 10/05: Decentralization and Fiscal Federalism

Class 1: The Trade-offs of Decentralization

Class 2: What local governments actually do in the US and how are they organized

Week 04, 10/10 - 10/12: How Local Governments Finance Themselves

Class 1: Taxation, general concepts

Problem Set 1 Due on 10/11

Class 2: Property Tax

Week 05, 10/17 - 10/19: How Local Governments Finance Themselves

Class 1: Intergovernmental Grants

Class 2: Education

Week 06, 10/24 - 10/26: What Local Governments Spend on

Class 1 : Midterm 1

Class 2: Education (Cont'd)

Week 07, 10/31 - 11/02: What Local Governments Spend on

Class 1: Public Welfare

Class 2: Economic Development

Problem Set 2 Due on 11/6

Week 08, 11/07 - 11/09: What Local Governments Spend on

Class 1: Economic Development

Class 2: Infrastructure

Week 09, 11/14 - 11/16: Who Runs Local Governments

Class 1: Local Politics

Class 2: Personnel Economics of Local Governments

Week 10, 11/21 - 11/23: Who Runs Local Governments

Class 1: Midterm 2

Class 2: TA Section

Problem Set 3 Due on 12/2

Proposal Due on 12/5