ECON 6773: Public Finance Grad Seminar- Spring 2019

Professor: Gregory Burge (Dr. B)
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Office Location: CCD1 430
Office Hours: MW 1:30 - 2:30 PM
Class Time: MW 3:00 – 4:15 PM
Class Meeting Room: CCD1 Rm. 326

Course Website & Class Email: Communication will come directly in class or by email. I may occasionally place some items on the Canvas website. Any material we cover that is not easily available through Scholar.Google will be available in my office.

Course Description & Objectives: Public Economics examines the role of government in a market economy and the various causes and consequences of government policies. In this course, we will discuss the principles that justify the existence of the public sector (e.g., public goods & externalities). We will focus primarily on issues related to raising revenue but will connect them to expenditure programs when appropriate.

The main goal of this course is to develop the skills needed to effectively research/publish in the area of Public Economics. The papers covered will be a combination of classic contributions and more recent investigations. The seminal papers generally frame the main issues. More recent papers covered generally examine currently relevant/controversial topics. **We will emphasize the empirical techniques used in the recent papers as well.** Public economics is a vast field, making exhaustive coverage of its various branches impossible. This course focuses on taxation with an emphasis on issues of state/local revenues and regulatory policy.

Specifically, the course objectives include (but are not limited to) the following:

- Demonstrate mastery of core concepts in taxation and familiarity with key contributions to the literature on the topic.
- Using these concepts to better analyze the effects of specific policies on resource allocation (efficiency) and income distribution (equity)
- Improve your presentation skills
- Conduct effective research in the area of public economics - as demonstrated through your research papers

Student Evaluation: Your grade will be determined according to the following weights:

Class participation, student article presentations, and article summary sheets	15%
Midterm Exam	25%
Research paper (in-class presentation)	10%
Research paper (written paper)	25%
Final Examination	25%

Class Participation, student Article Presentations, and article summary sheets

Class time will be discussion oriented, so participation is important. Asking questions and offering comments in regards to the discussion points are important actions that contribute to your grade. Reading/reviewing papers *before* the lectures that are to cover them is essential. I will lead the discussion, but it will be important that you are familiar with the papers so you can ask/answer questions and see the connections between papers. Some of the papers are long, but the main point/finding or coverage of a particular empirical technique is what we are trying to get from it. Some of the papers are short but discuss the use of very important issues and/or empirical techniques that we will want to address in detail. As such, the length of the paper itself is often a poor signal of how much time you should devote to understanding it. I will try to comment on each paper ahead of time in class to help guide your efforts.

For each mandatory covered paper we are going to discuss during a class meeting, you need to fill out BEFOREHAND an "Article Summary Form" and bring it to class. This should help facilitate our discussions and will give you something that hopefully adds value to your knowledge base moving forward. During class, you can even expand on what you have on your sheets if you want – that's a great way to enhance your understanding of the papers and what they are contributing to the class. **At the end of the term *you will turn these in collectively*. That packet will contribute to your grade on the 15% class participation/article summaries/presentations grade.**

In addition, you will see in each section that there are papers listed as (P) papers. These are papers that are suitable for students to select as **presentation papers**. We will work out the specific details once we get going- but each student will be responsible for 2 paper presentations over the semester. This will also contribute to your 15% grade. One presentation will be when you pair with another classmate – one will be on your own. Presentations should be brief (15-20 minutes, conference style) but informative. Make sure you think about what the paper adds to our discussion of the core material and get that across in your presentation. We will talk more about the presentations as we get deeper into the course. Students ARE ALLOWED and ENCOURAGED to select papers not listed in this syllabus as long as they are cleared with me. I will simply make sure they fit within the context of a given section and are appropriate.

Midterm and Final Exam:
You will have two in-class exams. The final exam's OU scheduled slot is 4:30-6:30 pm on Monday May 6th. Your performance on the exams will give you a good idea where you are at in terms of mastering the material, as well as determining half your grade. Exams will be "full/essay response" as well as "shorter answer" questions. ***I will circulate sets of example questions to be used for preparation*. They follow this "Q1" and "Q2" type of format. Exams consist of several of both types, I will comment further as we get closer to the first exam.**

Research Paper:
The research paper and your presentation of your work will combine for 35% of your grade between the manuscript itself and the presentation of your work to your classmates at the end of the term. The paper must relate to the field of Public Economics, broadly defined. You MAY have 2 options:

- Select a branch of literature within the field of public economics and compose a critical review of the literature. [This option is only acceptable for Master's Students or for students who have already **formally** matched up with a faculty member to write a dissertation in a field other than Public. In the case of a Ph.D. student working with an advisor on Dissertation related work already, the student's project must connect with the field of Public Economics (potentially in a very loose manner) but then of course could mainly be in the area you are writing in (Devo, IO, Trade/Finance, Labor, Macro, etc.)
- Conduct and present your own original empirical research. All students not able to select option 1, must select option 2.

Connections to the previous field course in Public with Dr. Hoover will be honored/encouraged! Those who took that class and have work they would like to extend/improve/enhance are encouraged to reach out to me to talk about those opportunities!!

Length: There is no required length. In grading your original research project, I will take into consideration the time and effort put into obtaining the data and/or generating your empirical results. In some cases, a large amount of time may have gone into data collection and empirical analysis, such that a short, clear write-up of what you have done will be sufficient. In certain cases, with my approval as we near the end of the term, it is acceptable to finish the semester with only preliminary empirical analyses along with a detailed explanation of what addition data/models would be needed to finish. If you have questions about your particular project, do not hesitate to ask.

Style: All papers should follow the detailed style guidelines of the *Journal of Public Economics*. Although content and accuracy are the most important aspects of a paper, the quality of the writing itself is a non-trivial component of what makes a good paper. If you will need help with editing, please look into your options early on.

Deadlines:

1) By early February, you need to pick a topic/question and have discussed it with me. You will also write short description of your plan of research and turn it in.
2) *The week following the midterm*, you will need to have a formal short proposal (mini-draft without results) of the paper to me. This will be approximately 3-5 pages and will describe in detail what you will do with the paper. This covers BOTH options 1 & 2 type papers. Any already completed data collection should be documented. If you already know the papers that you are building from in terms of your literature review, discuss those papers. These need to be on time and of a good quality- I will base a small portion of the final paper grade on this stage. This is meant to mimic the way that many conferences, in their call for submissions require a "detailed abstract".
3) In early April you will need to turn in a rough draft of the paper with a tentative works cited list. [I will make further announcements about a more precise due date for this as it gets closer.] I will not be strict about style issues at this rough draft point, nor will I assign a grade on your paper at this point, but this stage will contribute to the overall final grade in the sense that I can give you feedback based on what your submit and opportunities for improvement then follow. The more detailed your draft, the better off you are.
4) By April 26th (a FRIDAY, not a class meeting day) you need to turn in your final paper. Late papers will be penalized. The last week of class will be used for the paper presentations. Everyone has the same due date regardless of which class meeting you are slated to present your work at. If the class is large enough, we may need to "steal" some minutes from the classes the second to last week in an effort to make enough time slots for the 20 minute presentations the last week of class. More on this to come!

Try to stay AHEAD of this schedule. **Submissions at any of the first three stages can be more advanced than what is described.**

Academic Honesty:
Students are expected to uphold OU's high standards of academic integrity. This applies to all aspects of the course, but with particular emphasis on integrity with regards to the research paper. If you are not familiar with the academic integrity standards to which you are being held, please review them. I take this extremely seriously, particularly in a grad student research type endeavor. I don't want to get into the types of things that can happen if you clearly violate academic integrity and I have not needed to deal with these sorts of things very often in the past. PLEASE REACH OUT TO ME IF YOU HAVE ANY QUESTIONS ABOUT THIS AT ALL. Better safe than sorry.

Brief Overview of Topics to be Covered:

1. Introduction to Public Economics & Taxation
2. Collective Decision Making
3. Market Failure: Externalities
4. Market Failure: Public Goods
5. Local Public Goods/Tiebout
   The Midterm will cover sections 1-5

6. Club Goods & the Emerging Role of Private Governments
7. Strategic Interaction among Governments and Tax Competition
8. Housing Markets and Property Taxes
9. Local Land Use Regulation & Taxation of Local Development
   The Final Exam will cover section 6-9

Readings List:

All readings in **BOLD** are required and will be discussed in class. They are the "Article Summary Sheets" papers. I will communicate the readings schedule in advance. The papers with a *P* in front of them are those suitable for student presentations that I have identified. As mentioned, I am VERY happy to accommodate your selections if you have papers you want to clear with me. Once a *P* paper is selected, I will expect all students (not just the presenter), be familiar with core aspects of that papers. This will come from the discussion in class. I will adjust exams based on which papers are selected.

In addition, I have several textbooks that are great background/supplemental reading. Please do not purchase these – I have them all in my office (they can be borrowed).
1. Rosen, Harvey and Ted Gayer, *Public Finance*, 2009, (various editions)
2. Richard and Peggy Musgrave, *Public Finance in Theory and Practice*, (1980, 3rd ed.)
3. Kaplow, Louis, *The Theory of Taxation and Public Economics*, 2008.
4. Hindriks, Jean and Gareth Myles, *Intermediate Public Economics*, 2006.
5. Bagchi, Amaresh, *Readings in Public Finance*, 2005.

The first is an undergraduate text and will be useful if you *have not had* an undergraduate Public Economics class. Hindriks & Myles covers the same topics as Rosen/Gayer, but uses calculus and often serves as a textbook for graduate classes. Musgrave & Musgrave is a classic in the field and has essentially shaped all textbooks that have followed. Bagchi has a handful of readings that are particularly useful. The Kaplow book focuses on taxation specifically, as this course does, and may therefore be useful.

Readings:
These should all be easy to find, let me know if you are having trouble with any of them. They are also defined as a "tentative" readings list and are subject to change. I doubt that will happen – but as I come across new papers – I reserve that right.

1. Introduction to Public Economics & Taxation

Musgrave, Richard, (1996), "The Role of the State in Fiscal Theory," ***International Tax and Public Finance*****.**

Dreze, Jacques, (1995), "Forty Years of Public Economics: A Personal Perspective", ***Journal of Economic Perspectives.***

Optional Background Textbook readings: Bagchi, Chapter 1 (only through page 37) as well as the first few Chapters of Rosen/Gayer.

2. Collective Decision Making

Black, Duncan, (1948), "On the Rationale of Group Decision-Making," ***Journal of Political Economy*****.**

Tullock, Gordon, (1967), "The General Irrelevance of the General Impossibility Theorem," ***Quarterly Journal of Economics*****.**

Tideman, Nicolaus, and Gordon Tullock, (1976), "A New and Superior Process for Making Social Choices," ***Journal of Political Economy*****.**

P Ferreira, Fernando, and Joseph Gyourko, (2014), "Does Gender Matter for Political Leadership? The Case of U.S. Mayors." *Journal of Public Economics* (RD Paper)

P Bernhardt, Krasa, and Polborn, (2008), "Political Polarization and the Effects of Media Bias," *Journal of Public Economics*.

* P * Besley, Timothy, and Stephen Coate, (1997), "An Economic Model of Representative Democracy," *Quarterly Journal of Economics*.

* P * Grosser and Palfrey, (2014), "Candidate Entry and Political Polarization: An AntiMedian Voter Theorem," *American Journal of Political Science*.

<u>Related classic works [not assigned, but relevant] I may mention/cite in class discussion:</u>
Buchanan, James, and Gordon Tullock, 1962, *The Calculus of Consent*, U. Mich. Press.
Downs, Anthony, (1957), *An Economic Theory of Democracy*. Harper & Row.
Arrow, Kenneth, (1951), *Social Choice and Individual Values*. Yale University Press.
Olson, Mancur, (1965), *The Logic of Collective Action*. Harvard University Press.

3. Market Failure: Externalities

Coase, Ronald, (1960), "The Problem of Social Cost," *Journal of Law and Economics*. (please ask about this one, it is quite long with many examples)

Henderson, Vernon, (1997), "Externalities and Industrial Development," *Journal of Urban Economics*. (GMM panel data estimation)

Ayres, Ian, and Steven Levitt, (1998), "Measuring Positive Externalities from Unobservable Victim Precaution: An Empirical Analysis of Lojack," *Quarterly Journal of Economics*. (Instrumental Variables)

* P * Zheng et al., (2014) "Incentives for China's Urban Mayor's to Mitigate Pollution Externalities: The Role of the Central Government and Public Environmentalism," *Regional Science and Urban Economics.* (Fixed Effects Panel Data Estimation)

* P * Oreopoulos, Philip, (2003), "The Long-Run Consequences of Living in a Poor Neighborhood," *Quarterly Journal of Economics*. (Simple Econometrics on a randomized experiment.)

* P * Case, Anne, Harvey Rosen, and James Hines, (1993), "Budget Spillovers and Fiscal Policy Interdependence: Evidence from the States," *Journal of Public Economics*. (Fixed Effects Panel Data Estimation)

* P * Chetty, Raj, Hendren and Latz, (2016), "The Effects of exposure to better neighborhoods on children: New Evidence from the Moving to Opportunity Experiment" *American Economic Review.*

4. Market Failure: Public Goods

Samuelson, Paul, (1954), "The Pure Theory of Public Expenditure," *Review of Economics and Statistics*. & Samuelson, Paul, (1955), "A Diagrammatic Exposition of a Theory of Public Expenditure," *Review of Economics and Statistics*. (They are quite short, treat this as a single reading, we won't spend a ton of time here.)

Lindahl, Erik, (1964), "Just Taxation- A Positive Solution," translated from German and included in *Classics in the Theory of Public Finance*, eds. Richard Musgrave and Alan Peacock.

Andreoni, James, and Abigail Payne, (2003), "Do Government Grants to Private Charities Crowd out Giving or Fund-Raising?" *American Economic Review*. (Instrumental Variables)

* P * Malpezzi, Stephen, and Kerry Vandahl, (2002), "Does the Low-Income Housing Tax Credit Increase the Supply of Housing?" *Journal of Housing Economics*. (Instrumental Variables)

* P * Alesina, Baqir, Easterly, (1999), "Public Goods and Ethnic Divisions," *Quarterly Journal of Economics.*

* P * Fehr and Gachter (2000), "Cooperation and Punishment in Public Goods Experiments." *American Economic Review*.

5. "Local" Public Goods and State/Local Taxation

Tiebout, Charles, (1956), "A Pure Theory of Local Expenditures," *Journal of Political Economy*.

Borcherding, Thomas, and Robert Deacon, (1972), "The Demand for the Services of Non-Federal Governments," *American Economic Review*.

Cellini, Ferreira, Rothstein, (2011), "The Value of School Facility Investments: Evidence from a Dynamic Regression Discontinuity Design," *Quarterly Journal of Economics*. (Dynamic RD)

* P * Banzhaf, Spencer and Randall Walsh, (2008), "Do people Vote with their Feet? An Empirical Test of Tiebout's Mechanism," *American Economic Review*. (Difference-in-difference)

* P * Rhode, Paul, and Koleman Strumpf, (2003), "Assessing the Importance of Tiebout Sorting: Local Heterogeneity from 1850 to 1990," *American Economic Review*.

* P * Dawkins, Casey, (2005), "Tiebout Choice and Residential Segregation by Race in US Metropolitan Areas, 1980-2000," *Regional Science and Urban Economics*. (Instrumental Variables)

NOTE: Exam #1 covers the first 5 sections.

6. Club Goods & the Emerging Role of Private Governments

Buchanan, James, (1965), "An Economic Theory of Clubs," Economica.

Brooks, Leah, (2007), "Volunteering to be Taxed: Business Improvement Districts and the Extra-Governmental Provision of Public Safety," *Journal of Public Economics*.

Dye and Merriman, (2000), "The effects of tax increment financing on economic development" *Journal of Urban Economics.*

* P * Cheung, Ron, (2007), "The Interaction between Public and Private Governments: An Empirical Analysis," *Journal of Urban Economics*.

* P * Zaleski, Peter, and Charles Zech, (2006), "The Optimal Size of a Religious Congregation: An Economic Theory of Clubs Analysis", *American Journal of Economics and Sociology*. [quirky example of how to use economic theory for an application you might not necessarily think of at first glance!]

7. Strategic Interaction among Governments & Tax Competition

Brueckner, Jan, (2003), "Strategic Interaction among Governments: An Overview of Empirical Studies," *International Regional Science Review*. [There are 2 versions of this paper, ask me about this.]

Hines, James and Lawrence Summers, (2009), "How Globalization Affects Tax Design", *Tax Policy and the Economy (NBER)*

Noiset, Luc, (2003), "Is it Tax Competition or Tax Exporting," *Journal of Urban Economics*.

* P* Burge, Greg, and Brian Piper, (2012), "Strategic Fiscal Interdependence: County and Municipal Adoptions of Local Options Sales Taxes," *National Tax Journal*.

* P * Rork, Jonathan, (2003), "Coveting thy Neighbors' Taxation." *National Tax Journal*.

* P * Alm, James, Michael McKee, and Mark Skidmore, (1993), Fiscal Pressure, Tax Competition, and the Introduction of State Lotteries," *National Tax Journal.*

* P * Burge and Rogers (2016) "Leaders, Followers, and Asymmetric Local Tax Policy Diffusion" *Journal of Regional Science*.

* P * Brueckner, Jan, (2001), "Do Local Governments engage in Strategic Property-Tax Competition?" *National Tax Journal*.

8. Housing Markets & Property Taxes

Mieszkowski, Peter and George Zodrow, (1989), "Taxation and the Tiebout Model: The Differential Effects of Head Taxes, Taxes on Land Rents, and Property Taxes," ***Journal of Economic Literature*****.**

Downes, Thomas, and Jeff Zabel, (2002), "The Impact of School Characteristics on House Prices: Chicago 1987-1991" ***Journal of Urban Economics*****.**

Fischel, William, (1992), "Property Taxation and the Tiebout Model: Evidence for the Benefit View from Zoning and Voting," ***Journal of Economic Literature*****.**

* P * Burge, Gregory, and Lingxiao Zhoa, (2014, WP), "Housing Wealth, Property Taxes, and Labor Supply among the Elderly," *Journal of Labor Economics, 2017.*

* P * Gibbons et al., (2013), "Valuing School Quality using Boundary Discontinuities," *Journal of Urban Economics.*

9. Local Land Use Regulations & Taxing Development

Quigley, John, and Larry Rosenthal, (2005), "The Effects of Land Use Regulation of the Price of Housing: What do we know? What can we Learn?" ***Cityscape*****.**

Ihlanfeldt, Keith, (2004), "Exclusionary Land-use Regulations within Suburban Communities: A Review of the Evidence and Policy Prescriptions," ***Urban Studies*****.**

Burge, Gregory, (2014), "The Capitalization Effects of School, Residential, and Commercial Impact Fees on Undeveloped Land Values," ***Regional Science and Urban Economics*****.**

* P * Pollakowski, Henry, and Susan Wachter, (1990), "The Effects of Land-use Constraints on Housing Prices," *Land Economics*.

* P * Gyourko, Saiz, and Summers, (2008), "A New Measure of the local regulatory environment for housing market: The Wharton Residential Land Use Regulatory Index," *Urban Studies*.