THE LOCAL PUBLIC SECTOR: POLICIES AND BUSINESS IMPLICATIONS
MGMT 932
Kellogg School of Management
Northwestern University
Spring Quarter 2005

Section 81, Mondays, 6:30-9:30 p.m.

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Course Goals:
This applied microeconomics course will help you understand the role of state and local
governments in a market economy and the impact of state and local fiscal policies on business
decisions. It will also help you evaluate various government expenditure programs and taxation
policies—including alternative methods of providing and financing K-12 education, and
economic development policies such as Tax Increment Financing—from both the perspective of a
“producer” of those polices (public manager, elected official, public commission member) and
the perspective of a “consumer” or “customer” of those policies (resident of the jurisdiction,
taxpayer, business owner, real estate developer).

Calendar of Class Meetings:
The class meets on Monday evenings in Evanston. Two Mondays during the spring quarter are
Northwestern holidays. The official suggestion for make-up classes is Friday, April 1 (for
March 28) and Friday, May 13 (for May 30). We will meet on Friday, April 1 from 6:30 to 9:30
p.m. Indeed, this will be our first class meeting. We will not meet, however, on Friday May 13.
We will determine the date and time of the second make-up class as a group once the class is
underway. Thus, the class will meet the following evenings from 6:30 to 9:30 p.m.:
Friday, April 1
Monday, April 4
Monday, April 11
Monday, April 18
Monday, April 25
Monday, May 2
Monday, May 9
Monday, May 16
Monday, May 23
And we will meet one other three-hour period, date and time yet to be determined.
Class Structure:
The class format consists of lectures by the instructor and student discussion of media articles and questions provided by the instructor. Before each class meeting, the instructor will post a set of questions that students should come to class prepared to discuss. The questions are meant to provoke debate and to challenge students’ understanding of the concepts and material presented in lectures. To stimulate additional discussion, the instructor will also distribute copies of articles from the media that relate to course topics.

Determination of Grades:
There are 100 possible points in the course. Grades will be based on two exams, one worth 40 points and the other worth 30 points, and a group report and presentation, worth 30 points. Participation in class discussions of lecture material, distributed media articles, and distributed discussion questions is expected and will be taken into account in determining grades in marginal cases.

Midterm Exam ........................................................ 40 points
Final Exam ............................................................ 30 points
Group written report and oral presentation .................................. 30 points
TOTAL POSSIBLE POINTS ............................................ 100 points

The schedule for the two exams is as follows:
Monday, May 2: in-class, closed-book, 80-minute Midterm Exam
Monday, May 23: in-class, closed-book, 60-minute Final Exam
The group presentations will take place during the last two class meetings.

Course Outline:

April 1 (*Friday*) - Introduction
   Why should managers care about the state and local public sector?
   Why and how should state and local governments intervene in the economy?
   Example for discussion: Zoning

April 4 - Is there such a thing as a good tax?
   Principles of taxation: equity, efficiency, simplicity
   The big three: personal income tax, general sales tax, real property tax
   Current issue: The fiscal crisis facing state government

Readings:
April 11 - Tax incentives and economic development
Why and how are state and local governments involved in spurring local economic development?

→ Discussion question: Was it good policy for the City of Chicago and the State of Illinois to offer Boeing $50 million to move its corporate headquarters to Chicago?

Readings:

April 18 - Tax incentives and economic development continued
What is tax increment financing (TIF) and why do developers adore, and school districts abhor, it?

Readings:

April 25 - Fiscally empowered local governments
Is competition among governments good for taxpayers? Is it good for society?

⊙ Example for discussion: Tax-base sharing in the Twin Cities

Readings:

May 2 - MIDTERM EXAM
- Property taxation
Why do (most) people hate and (most) economists love the property tax?

⊙ Example for discussion: New Hampshire’s love affair with the property tax

Readings:
May 9 - Property taxation continued
- K-12 education
  Who’s the fairest tax of all?
  ☞ Example for discussion: The demise of Pittsburgh’s split-rate property tax
  ☞ Example for discussion: Northwestern University versus the City of Evanston
  What is wrong with America’s public schools?

Readings:

May 16 - K-12 education continued
  Can America’s public schools be fixed?
  ☞ Examples for discussion: The bold finance experiments in California and Michigan

Readings:

May 23 - FINAL EXAM
- student group presentations

Another date and time to be determined - student group presentations