Have you ever been curious about why Boeing chose to relocate its corporate headquarters to Chicago?

Or why the City of Evanston and Northwestern University are antagonists?

Or why real estate developers love and school districts hate TIF?

This applied microeconomics course will help you understand these issues and learn more about the interactions of state and local government fiscal policies and 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 (TIF)—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 a jurisdiction, taxpayer, business owner, real estate developer).

The course is grounded in the discipline of public finance economics, and within that discipline, on the role of sub-national levels of government. Public finance is the branch of economics that deals with the questions of when and how government should intervene in the private marketplace and how government interventions affect economic outcomes and decisions. State and local public economics is concerned in part with competition among local governments for residents and capital. This course relies upon the foundation of microeconomics, the material you studied in MECN 430. Some microeconomic concepts that were not covered in MECN 430 are necessary for understanding public finance economics. These new concepts will be taught in the class.
Who would especially benefit from this course?

- Students (of any major) who are interested in the role of state and local governments in a market economy and the impact of state and local fiscal policies on business decisions.

- Students majoring in
  - Real Estate Management
  - Social Enterprise at Kellogg (SEEK)
  - Management & Strategy

Prerequisites: MECN 430 (Microeconomic Analysis)

Readings

- Case packet of readings.

- Additional media articles and material will be handed out as the class progresses.

Class Structure and Etiquette

The class format consists of both lectures by the instructor and student-instructor discussions of media articles and discussion questions provided by the instructor. At the beginning of each week, 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 minimize distractions and facilitate discussion, please do not use laptop computers, personal digital assistants, or iPods during class sessions, and please turn cellular telephones off.

Determination of Grades

Grades will be based on a group project, a midterm exam, and a final exam. There are 100 possible points in the course, divided up as follows:

1. Midterm Exam ................................................................. 35 points
2. Final Exam ................................................................. 35 points
3. Group written report and oral presentation . (20 group points, 10 individual points) 30 points
TOTAL POSSIBLE POINTS .............................................. 100 points

Though not explicitly graded, participation in class discussions of lecture material, readings, discussion questions, and other distributed materials is expected, and it will be taken into account in determining grades in borderline cases.
Exams
The exams will be closed-notes/in-class exams. Each exam will be 90 minutes long and will consist of true-false, problem-solving, and short-essay questions. The midterm will take place in class on **Monday, October 23** and will cover all lectures and readings up to that date. The final will take place on **Thursday, November 30** and will cover the material from the second half of the course.

Group project – Assessing the City of Chicago’s Economic Development Strategy
The city of Chicago has a plethora of incentive programs aimed at recruitment and retention of commercial and industrial firms to the city. While Mayor Daley and his staff are enthusiastic supporters, many observers question the effectiveness and fairness of these incentive programs.

The group project will consist of an assessment of the city of Chicago’s business incentive programs. We will divide the class into two groups, each group responsible for one part of the assessment. Because TIF is such a large part of the city’s strategy, one group will be responsible for describing and assessing the effectiveness of the city’s use of this one program. The other group will be responsible for uncovering and describing all relevant programs other than TIF offered by various departments in the city. This group will also provide a brief assessment of the effectiveness of the three most important programs, as identified by the group. Each group will put together facts and brief histories on each program. To assess effectiveness, each group will rely on lessons from the literature and on their own original analysis.

Each group will provide a written report (10-15 double-spaced pages) and will make an oral presentation to the class. The reports will be due and the presentations will take place in class on **Thursday, November 2**.

Grades for the group projects will be based on two components. Each member of the group will receive a common score (20 maximum points) based on the instructor’s evaluation of the written report and oral presentation. Second, each member of the group will give a score to every other member of the group, which will be reported confidentially to the instructor (10 maximum points per person).
Course Outline:

Introduction

Thursday, September 21
Why should business leaders care about the state and local public sector?

Readings:

A primer on state and local public economics

Monday, September 25
Why and how should state and local governments intervene in the economy?

Thursday, September 28
Principles of taxation: equity, efficiency, simplicity.

Reading:

Monday, October 2
The big three: personal income tax, general sales tax, real property tax.
State fiscal crises.

Readings:
Tax incentives and economic development

Thursday, October 5
Can state and local governments spur local economic development?

Readings:

Monday, October 9
Should state and local governments attempt to spur local economic development? What is tax increment financing (TIF) and why do developers adore, and school districts abhor, it?

⇒ 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:

Fiscally empowered local governments

Thursday, October 12
Is competition among governments good for taxpayers? Is it good for society?

Readings:

Monday, October 16
Fiscal federalism and intergovernmental grants.

**Property taxation**

*Thursday, October 19*
Why do (most) people hate and (most) economists love the property tax?

**Reading:**

✉ Midterm Exam ✉
*Monday, October 23*

*Thursday, October 26*
Who bears the burden of the property tax?

**Reading:**

*Monday, October 30*
Whither the property tax – limits on the property tax.

**Readings:**

✉ Group Reports Due ✉
✉ Presentation of Group Reports ✉
*Assessing the City of Chicago’s Economic Development Strategy*
*Thursday, November 2*
Alternative revenue sources

**Monday, November 6**
If not the property tax, then what?

**Readings:**

**Thursday, November 9**
Gambling and other band-aid approaches to state finances.

**Reading:**

K-12 education

**Monday, November 13**
Why and how is the public sector involved in education?

**Reading:**

**Thursday, November 16**
Financing public education – the force of equal opportunity.
State aid to local school districts.

⇨ Discussion question: Was it good policy for the State of California to equalize spending per pupil across school districts?

**Readings:**

**Monday, November 20**
Can America’s public schools be fixed? School choice.

**Readings:**

**Monday, November 27**
Can America’s public schools be held accountable? No Child Left Behind.

☞ Final Exam ☞

**Thursday, November 30**