Syllabus

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Course Overview and Goals

☐ 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 policies (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. Public finance economics is built on 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 will be handed out as the class progresses.

Class Structure and Etiquette

The class format consists of lectures by the instructor and student discussion of media articles and questions provided by the instructor. **Before the start 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.

Make-up Class

Note that there are no classes on Memorial Day, Monday, May 29. The make-up class meeting will be held on Wednesday, May 24. This means the class will meet three times during Week 9 (May 22-26): Monday, Wednesday and Thursday – this week will be known officially as “the week from Hell”.
Determination of Grades

Grades will be based on two homework assignments (problem sets, short essays), one group project, a midterm exam, and a final exam. There are 100 possible points in the course, divided up as follows:

1. Homework assignments .................................................... (5 points each) 10 points
2. Midterm Exam ................................................................. 30 points
3. Final Exam ................................................................. 30 points
4. Group written report ..........(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.

Homework
The short homework assignments are designed to test your understanding of the concepts and topics and to practice for the exams. The homework assignments will be graded on a “check”, “check-plus”, and “check-minus” basis.

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-answer questions. The midterm will take place in class on **Monday, April 24** (Week 5) and will cover all lectures and readings from the first four weeks of class. The final will take place on **Thursday, May 25** (Week 9) and will cover the material from the second half of the course.

Group project
For decades the property tax in Illinois has been criticized from many quarters. And yet the state continues to rely on it to a greater extent than most other states. In recent years the tax has been constrained, “reformed” and tinkered with. The purpose of the group project is to attempt to tackle the questions: What is wrong with Illinois’s property tax, and what can be done to fix it?

To focus our efforts, I propose a mock setting based in real possibilities and likely scenarios. We will assume that a subcommittee of the Illinois General Assembly has been formed by the Senate President and the Speaker of the House to assess the Illinois property tax and to make recommendations for reform. Students will be divided into groups to provide expert testimony and advice to the special subcommittee. Each student group will be given a role/identity associated with a real and active organization in Illinois. For example, a group might have the role of representing the Taxpayers’ Federation of Illinois, a business membership group, or EDRED, a coalition of school districts in the Chicago metropolitan area, or BOMA of Chicago, an association of commercial property owners and managers, or the Metropolitan Planning Council, a group of business and civic leaders, or the Governor’s office. All of these groups lobby in
Springfield, the capitol of Illinois, and several of them conduct research on public issues and policies.

Each student group will write a report and provide brief oral testimony to the (fictional) subcommittee. Each report will contain an assessment of the property tax in Illinois, an identification of problems with the tax, a proposal for structural reform of the tax that would include arguments for why the proposed tax is superior to the current tax, and a discussion of the likely winners and losers under the proposed reform. The recommended reform should reflect the mission and values of the organization that the student group represents.

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. 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).

Students will be free to form their own groups of 3 to 5 individuals. A list of possible organizations to represent will be distributed the first week of class. Students will be free to choose an organization from the list or to propose another organization to represent.

By Thursday of the third week of the quarter (April 13), groups will be expected to submit a one-page outline of their project. The outline should indicate the organization that the group will represent, the primary issues that the group will address, and the likely sources of information that the group will draw upon in researching and preparing their testimony.

The reports are due and the oral presentations will take place on the last day of class, Thursday, June 1.
Course Outline:

Week 1 - Introduction

Monday, March 27 and Thursday, March 30
Why should managers care about the state and local public sector?
Why and how should state and local governments intervene in the economy?

❓ As a property owner, should you be concerned about the quality of your local school?

Readings:

Week 2 - Is there such a thing as a good tax?

Monday, April 3 and Thursday, April 6
Principles of taxation: equity, efficiency, simplicity
The big three: personal income tax, general sales tax, real property tax

☞ Current issue: The fiscal crisis – whoops, surplus – facing state government

Readings:
Week 3 - Tax incentives and economic development

**Monday, April 10 and Thursday, April 13**

Why and how are state and local governments involved in spurring 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?

◆ One page outline of the group project is due Thursday, April 13.

**Readings:**


Week 4 - Fiscally empowered local governments

**Monday, April 17 and Thursday, April 20**

Is competition among governments good for taxpayers? Is it good for society?

Which level of government for which functions of government?

◆ Homework assignment #1 is due Monday, April 17.

**Readings:**


Week 5 - Property taxation
Monday, April 24
Midterm Exam

Thursday, April 27
Why do (most) people hate and (most) economists love the property tax?

Readings:

Week 6 - Property taxation continued

Monday, May 1 and Thursday, May 4
Whither the property tax – limits on the property tax

Readings:

Week 7 - Alternative revenue sources

Monday, May 8 and Thursday, May 11
If not the property tax, then what?
Band-aid approaches to state finances

Readings:
Week 8 - K-12 education

Monday, May 15 and Thursday, May 18
Why and how is the public sector involved in education?
Financing public education – the force of equal opportunity

∇ Homework assignment #2 is due Thursday, May 18.

Readings:

Week 9 - K-12 education continued

Monday, May 22
State aid to local school districts

∇ The bold finance experiments in California and Michigan

Readings:

Wednesday, May 24
Can America’s public schools be fixed?

Readings:

Thursday, May 25
∇ Final Exam ⇩

Week 10 - Presentations of Group Projects
Thursday, June 1
Student-Group Expert-Testimony Presentations

Student-Group Expert-Testimony Reports Due