

**SEEK 480: PUBLIC ECONOMICS FOR BUSINESS LEADERS:  
STATE AND LOCAL POLICY**

**Kellogg School of Management  
Northwestern University**

**Spring Quarter 2012, Section 61, Mondays and Thursdays, 10:30-12:00 p.m.**

**Syllabus (TENTATIVE 1.31.12)**

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**Course Overview**

As future business leaders, Kellogg graduates will be expected to have a thoughtful response to public policy questions, especially those related to business. 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 will benefit from this course. This quarter we will consider many questions, including:

- Should Chicago provide business incentives to the Chicago Mercantile Exchange?
- What are the benefits of public education and how should it be financed?
- How should the City of Detroit restructure its finances to avoid state takeover?
- What needs to be done about Illinois' public pension plans to avoid a downgrade of its debt?

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. Using the **City of Detroit** as a particularly salient example, students will apply economic tools to topical public policy questions. Students will 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 (business manager, real estate developer, taxpayer).

Public economics is the branch of economics that deals with the questions of when and how government should intervene in the marketplace and how government interventions affect economic outcomes and decisions. The course is grounded in the discipline of public economics and, within that discipline, on the role of sub-national levels of government. State and local public economics is concerned in part with competition among local governments for residents and businesses.

**Prerequisites:** MECN 430 (Microeconomic Analysis) or permission of instructor.

This course relies upon the foundation of microeconomics, the material covered in MECN 430. Some microeconomic concepts that were not covered in MECN 430 are necessary for understanding public economics. These new concepts will be taught in the class.

**Class Etiquette**

To minimize distractions and facilitate discussion, please do not use laptop computers, personal digital assistants, smart phones, or iPods during class sessions, and please turn cellular/mobile telephones off.

**Tentative Course Outline**

Students are expected to prepare for class by reading and analyzing media articles and scholarly reports posted on Blackboard.

<b>Topic</b>	<b>Date</b>	<b>Exercise/ Guest Speaker</b>	<b>Assignment</b>
Introduction	3/26		
Externalities and Education	3/29	Local Smoking Bans, Zoning Restrictions	
	4/2	Education Financing and NYC School Choice	
	4/5		Vouchers/Charters Homework
	4/9	Guest Speaker- Charter Schools	
Public Goods	4/12	Infrastructure	
Economic Development	4/16	Chicago TIF	
	4/19		Tax Incentives Homework
	4/23	Guest Speaker- Tax Incentives	
	4/26		Midterm (In Class)
Taxation	4/30	Loss of Tax Base in Detroit	
	5/3	2011 Illinois Tax Increases	
Govt Fiscal Crisis	5/7	City Bankruptcy- Harrisburg, PA	Final Project Topics due
	5/9	<b>Memorial Day Make-Up</b> Pensions: A State by State Comparison	
	5/10		Detroit Budget Homework
	5/14	Guest Speaker- City of Chicago Budget	
Fiscal Federalism	5/17	California Proposition 13	
	5/21	Fiscal Federalism: Lessons from Spain for Emerging Market Countries	
	5/24	No Child Left Behind	
	5/28	<b>Memorial Day - No Class</b>	
	5/31		Final Project Presentations (In Class)
	TBD		Final Exam

**Determination of Grades**

Grades will be based on a combination of class participation, three homework assignments, a group report and presentation, and two closed-note exams.

Class Participation.....	10%
Homework Assignments (3 total)....	30%
Group Paper and Presentation.....	20%
Midterm Exam .....	20%
Final Exam.....	<u>20%</u>
	100%

***Class Participation***

Participation in class discussions of lecture material, readings, and other distributed materials is expected and will be taken into account in determining grades. Points will be assigned based on the quality of participation, rather than quantity. Quality responses consist of both comments and clarification questions that move the conversation forward and enhance the learning of classmates. In addition, students are expected to prepare questions for guest speakers and for student presentations.

***Homework Assignments***

Having lost more than half its population and especially hard hit by the current economic recession, the City of Detroit provides a nuanced example of the issues local policymakers are facing today. A scenario will be presented whereby the City of Detroit has hired you as a consultant to advise them on a problem. Topics will include improving educational outcomes in Detroit public schools, economic development, and closing the Detroit budget gap.

Your task will be to write a short memo in which you analyze the issue and argue for your solution. In addition, you may be called on to argue for your position in class. Each homework will be a group assignment, and groups will submit only one jointly-written memo. The two groups will be randomly assigned to argue for particular, and different, solutions to the problem in front of the client (represented by the rest of the class). For each homework assignment, two randomly chosen groups of students will debate one another and lead a classroom discussion.

***Two-page memos***

The written reports should be no more than two pages in length (double-spaced, 12-point type). Aesthetically, you should prepare your report as though you were submitting it to a real client. Memos (in **pdf format**) should be e-mailed to the instructor prior to the class.

***Group homework presentation***

The grade for the group presentation will be based on the instructor’s evaluation of the team’s ability to frame the issues clearly, to state their argument and defend their position, and to engage in thoughtful discussion with the class. Those not called on to present will represent the client; “clients” will be evaluated on the quality of questions asked. Students may prepare a few (2-3) slides for the presentation, but a deck is neither required, nor graded.

The grade for each homework memo will be based primarily on the instructor’s evaluation of the

written report/memo, but also on the student's contribution to the classroom discussion.

### ***Group Paper and Presentation***

The group paper and presentation will give students the opportunity to take class learnings and apply them to a state or local public policy issue of their choice. Using the tools presented in class, students will analyze the real-world issue and present recommendations to the client. Topics should include an economics component and must be approved by the instructor no later than May 7th.

### ***Paper***

The paper should be no more than 8 pages double-spaced, 12 point font (excluding graphs, appendices and other source information). Papers should identify several solutions and address why the proposed solution is the best as well as what concerns the client will face when implementing the proposed solution.

### ***Presentation***

On the last day of class, each group will provide a 7-minute presentation to the class, followed by a brief Q&A session. A strict time limit will be enforced. The required deck should be emailed to the instructor by 8:00AM of the day of class.

In addition to preparing your consultant report, each group will be assigned to act as the "client" for another group. Prior to the final class, each group must submit in advance the issue, client, and time period during which the real-world issue unfolded so that clients can briefly familiarize themselves with the issue prior to the presentation of the report. Clients will be responsible for asking questions of the consultant. After they ask questions, the rest of the class can contribute.

The grade for the group project will be based on the instructor's evaluation of the written report and on the team's ability to diagnose the problems and to present and make the case for their proposed solution(s).

### ***Exams***

There will be two exams – a midterm (in class) and a final (during finals week). Both will be closed-notes. The exams will consist of true-false, problem-solving, and short-essay questions. Additional information will be distributed in class prior to the exams.