

Economics of State and Local Government

Economics 4554-001

Instructor: Dr. Douglas Norton,

Time and Location: MWF 2:30pm - 3:20pm, HCB 313

Contact: via Canvas email

Office Hours: Wednesday 10am - 12pm (or by appointment), Bellamy 161 B

Course Description: This course examines the role of state and local governments in the economy and aims to improve understanding about the demand, supply, and finance of public services. To do this we will touch on five areas of research. First, because a large portion of the class will be discussion based, and the material is political, we start the class with a discussion of moral frameworks as well as conceptions of the state and justice. Second, we review market failure to provide an understanding about the reasons economists often give for government intervention in the economy. Third, we focus on consumer demand for public services and how those demands are revealed to public officials. Fourth, we turn to questions about which governmental unit provides those services, how the services are produced, and what the services cost. Fifth, we evaluate different means for raising revenues to finance those services (e.g. user fees, property taxes, saletax, etc.).

Course Objectives:

Upon completion of this course students will:

1. Understand the difficult incentives in public good provision
2. Build a framework for understanding the organization of government
3. Develop an understanding about what government produces and associated costs
4. Analyze the efficiency, incidence, and progressivity of a tax

Grade Distribution:

Participation	50%
Quizzes	10%
Course Paper	30%
Presentation	10%

Letter Grade Distribution:

≥ 93.00	A	73.00 - 76.99	C
90.00 - 92.99	A-	70.00 - 72.99	C-
87.00 - 89.99	B+	67.00 - 69.99	D+
83.00 - 86.99	B	63.00 - 66.99	D
80.00 - 82.99	B-	60.00 - 62.99	D-
77.00 - 79.99	C+	≤ 59.99	F

Course Policies:

- **General**

- Students are expected to attend class, complete assigned readings/videos/podcasts and able to make contributions in class. Embedded in lecture slides are a number of questions related to the readings to help start discussion. These are conversation starters and discussions are often path-dependent based on student questions and insights.

- **Grades**

- **Participation:** Most classes are lectures but with a heavy discussion component. Students must make contributions to the discussion to receive credit. The rubric for participation is simple: level of engagement, preparedness, and attitude. Level of engagement captures whether quality questions are asked and other's comments are challenged or advanced constructively with accurate/relevant information. To be prepared for class it needs to be clear that students have engaged the assigned materials. Attitude refers to whether rules of etiquette are followed. Other's ideas should be engaged with charitably and in good faith.

- **Quizzes:** There will be seven quizzes and you can drop the lowest two quiz grades so that each quiz is worth two percent of your final grade. The quizzes are intended to be simple and straightforward questions based on the assigned materials.

- **Presentation:** Each student will be required to give an 8 minute PowerPoint presentation on a topic related to the course material. On Canvas, I will provide a list of papers to choose from. For example, after the discussion of civil society a person may want to read and make a presentation of empirical work by Dan Hungerman on whether the church and state are substitutes. Students can choose the paper they wish to present any time **before October 25th. Paper selections are first come, first serve.** Based on the papers people choose *I will assign them a date to present.* The dates for presentations are on:

- * November 8th - For papers related to Weeks 1-3

- * November 13th - For papers related to Week 4-5

- * November 15th - For papers related to Week 6-7

- * November 18th - Topics after Week 7

- * November 20th - Topics after Week 7

Beyond presentations, during each presentation students will be asked to rate each other's presentations on the criteria of clarity, content, interest, and delivery and asked for a couple short remarks about the presentation. At the end of each class, I will collect these ratings and **these will be considered participation for those five classes when presentations are happening.**

– **Final Paper:** The final paper is a brief 2,500 word paper (6 pages double spaced). There are two important dates. First, no later than **October 22nd** each person must have a rough draft completed. Second, the final paper will be due on **December 4th**. For each day late 10 points will be deducted from the paper grade. In this paper students will:

- (1) Pick a public service (e.g. police, education, sanitation, roads, recreation facilities, etc.)
- (2) Interview two people associated with the production or provision of that service and find out
 - What is being produced, how is output measured, how is quality conceived
 - What are the inputs to get output, how are those inputs combined to get output, was this production process known or discovered through trial and error
- (3) Find out what unit of govt (state, local, federal, . . .) finances/provides the service.
- (4) Find out what accountability mechanisms exist to ensure the quality provision of services (internal to the organization, public forums, financial incentives, etc.)

I will divide students into groups of four. On October 23rd I will email all four group members with their own rough draft and the rough draft of their group members. Before Friday **October 25th** each student needs to read the three rough drafts written by other group members and provide a one page review of the paper with suggestions for improvement. More details will be posted to Canvas leading up to date where we provide each other feedback on our writing.

University Mandated Material:

- **University Attendance Policy:** Excused absences include documented illness, deaths in the family and other documented crises, call to active military duty or jury duty, religious holy days, and official University activities. These absences will be accommodated in a way that does not arbitrarily penalize students who have a valid excuse. Consideration will also be given to students whose dependent children experience serious illness.
- **Academic Honor Policy:** The Florida State University Academic Honor Policy outlines the University's expectations for the integrity of students' academic work, the procedures for resolving alleged violations of those expectations, and the rights and responsibilities of students and faculty members throughout the process. Students are responsible for reading the Academic Honor Policy and for living up to their pledge to "...be honest and truthful and...[to] strive for personal and institutional integrity at Florida State University." (Florida State University Academic Honor Policy, found at <http://fda.fsu.edu/Academics/Academic-Honor-Policy>)
- **Americans with Disabilities Act:** Students with disabilities needing academic accommodation should: (1) register with and provide documentation to the Student Disability Resource Center; and (2) bring a letter to the instructor indicating the need for accommodation and what kind of accommodation. Please note that instructors are not allowed to provide classroom accommodation to a student until appropriate verification from the Student Disability Resource Center has been provided. The syllabus and other class materials are available in alternative format upon request. For more information about services available to FSU students with disabilities, contact the:

Student Disability Resource Center

874 Traditions Way, 108 Student Services Building

Florida State University, Tallahassee, FL 32306-4167

(850) 644-9566 (voice)

(850) 644-8504 (TDD)

sdrc@admin.fsu.edu

<http://www.disabilitycenter.fsu.edu/>

- **Syllabus Change Policy:** Except for changes that substantially affect implementation of the evaluation (grading) statement, this syllabus is a guide for the course and is subject to change with advance notice.

General Outline

- **Module 1: Markets and Government** Economics begins and ends with scarcity. The first three weeks of the course discuss the allocation of scarce resources through the market system, the prosperity markets have created, and how resources are allocated through the price system. In perfect competition, these allocations promote the general welfare. However, there are two reasons we explore here for the importance of government institutions. First, market transactions are embedded in property rights and contract enforcement institutions (that states provide) that enable exchange. Second, economists often justify government involvement on the grounds that markets can lead to sub-optimal allocations (e.g. market power, asymmetric information, and externalities). Then we turn to insights from public choice because one crucial question in economics is, “compared to what?” While allocation of scarce resources through the market might lead to sub-optimal outcomes, information constraints and poor incentives for government actors mean that intervention is not necessarily going to lead to better outcomes.
- **Module 2: The Provision of Public Goods** The next five weeks elaborate on the provision of public goods. The nature of public goods is that non-payers cannot be excluded. This creates incentives to free-ride and lie about benefits which economists call “incentive compatibility problems”. This section is organized around this concept. We start with private provision of public goods. Then we discuss the provision of public goods through government which involves how people vote for public goods. Finally, we discuss mobility (i.e. choice of community) as a preference revelation mechanism. When people can move that creates inter-jurisdictional competition for residents and businesses. We explore a number of ideas related to the choice of community. For example, fairness concerns, exit versus voice, innovation in the provision of public goods, and fiscal incentives for businesses. Finally, we end this section with a discussion of the Metropolitan Consolidation Debate and the tradeoffs associated with different organization of government.
- **Module 3: Production and Finance** The first eight weeks are broadly about the demand for public goods. The first week in this module is about the supply of public goods. We start with what governments produce and how that relates to what individuals care about. Then we discuss how inputs are combined to produce output with an emphasis on the input of “co-production”. We then develop some principles about taxation and conclude with a discussion of how ideas from this module relate to education policy.
- **Module 4: Presentations** In two of the final three weeks, students will present on extensions or applications to topics discussed in this class.

Tentative Schedule

Week	Monday	Wednesday	Friday
1	Syllabus	Civil Discourse	Markets
2	Labor Day	Prices	States
3	Equity/Efficiency	Market Failure	Public Choice
4	Public Goods	Civil Society	Contingent Valuation
5	Majority Voting	Mechanism Design	Experiment
6	Tiebout I	Tiebout II	Exit and Innovation
7	Metropolitan Consolidation	TBD	TBD
8	Development I	Development II	Outputs / Inputs
9	Privatization	User Fees	Writing Feedback
10	Taxation I	Taxation II	Property Tax
11	Education I	Education II	Presentation
12	Veteran's Day	Presentation	Presentation
13	Presentation	Presentation	TBD
15	Sales Tax	Behavioral Economics and Policy	Review of Course