Urban Economics and Public Finance

Instructor Contact Information

Professor: Spencer T. Brien
Day, Time and Location of Meetings: Tuesday 6:00 – 8:45 p.m.  UCENT 207
Office Location: UCENT 422 J
Office Hours: Tuesday 3:00 pm – 4:30 pm
Email Address: sbrien@asu.edu (please include “PAF 201” in subject line)

NOTE: This syllabus is a “living” document. That means that, given fair warning, it may be adjusted over the course of the term.

Course Description:
This course provides an introduction to urban economics and urban public finance with an emphasis on the public policy aspects of these topics. It is balanced between theory and application and is targeted to students interested in better understanding the rationale for and effects of urban policy and planning within a context of economic reasoning. This course is primarily geared to introducing and explaining relevant theories of urban economics and local public finance and governance to students who wish to be urban decision-makers.

While the treatment of the material in the course may not be principally mathematical, familiarity with introductory microeconomics (PAF 504 Public Sector Economics or its equivalent) is required.

Required Text:
Gruber, Jonathan 2009. Public Finance and Public Policy 3e. [The 4th edition is the latest, but the 3rd edition is widely available online]
Brunori, David 1998. The Future of State Taxation

Recommended Texts:
Fisher, Ron – State and Local Public Finance
O’Sullivan, Arthur – Urban Economics

Objectives:
Students taking this course will be expected to:

- Develop familiarity with empirical research in state and local public finance and urban economics.
- Develop an understanding of the motivation for public intervention in urban markets, and the instruments used by local governments to do so.
- Apply theory to selected contemporary urban problems: financing local services, urban sprawl,
• Apply theory to current controversies local government finance
• Understand the role of local government as compared with that of the central government and the way in which the local administration works, including local decision making process, budgeting/taxation/expenditure decisions in particular;
• Explore various ways of defining and determining the demand, and/or the needs, for local public services;
• Discuss local finance, local expenditures, and various local taxes and other financial means and/or mechanisms through which local services are provided and delivered, including intergovernmental fiscal flows

Class discussions of specific policies will generally adhere to the following outline:

A. Current policy
   1) What is the current policy? (May be general; e.g., higher education; or specific; e.g., Pell grants). (Current policy may be "do nothing.")

B. Market failure/success
   1) In the absence of government, what, if any, market failure(s) would characterize the supply of and/or the demand for the good or service?
   2) What, if any, would be the theoretically best (if not optimal) policy response?

C. Non-market (government) failure/success
   1) Given the presence (or absence) of government, what, if any, are the types of non-market failure (or success) that characterize current policy?
   2) What political factors account for disparity (or, possibly, no disparity) between the current and a theoretically more optimal policy?

Course Grade and Requirements:

In order for this class to be a success, the readings must be completed prior to the class meetings. The class sessions will consist of mini-lectures, discussions, and group exercises covering the various topics. It is expected that students will keep abreast of current events in public economics.

In addition to the assigned readings, you might be interested in going to the text’s web site for additional information and charts. The URL is identified on page x in the text and also on the back cover.

In addition to the readings, each student will be responsible for the following:

1. Attendance and active participation in class demonstrating acquaintance with the readings is absolutely imperative.

2. Each student will be responsible for bringing in a current event related to an urban economic topic. Please bring in local public finance current events when we will be discussing public finance issues; please bring in non-finance urban economics when we are not talking about public finance issues. These should be articles, op-ed pieces, or analyses from a newspaper or magazine. Otherwise, a printout is acceptable. Note that you do not have to do any analysis—we will do that in class. You do not have to bring in a current event for the first class session.

3. There will be multiple problem sets due during the class. You should feel free to work with each other if you would like to. Their due dates are listed on the calendar.
There will be a take-home midterm exam handed out on February 25\textsuperscript{th} and will be due the following class period on March 4\textsuperscript{th}.

**Group Presentation Assignment:** Choose one of the following topics: State shared revenues, sales tax, community facilities districts, certificates of participation, debt, user fees and charges, or federal transfers. Please note that the property tax is not available—I will do that. This should be Arizona oriented and should be primarily descriptive. Then, prepare a 10-15 minute presentation. There should also be a 20 page group paper to be copied and distributed to the class. Please be prepared to present your topic to the class on April 22nd. The entire group will receive one grade. However, to prevent free riding, each member of the group will evaluate the contribution of the other members (as a percent of total effort). I will keep this evaluation confidential, but it will be factored in if there is a borderline grade determination at the end of the class.

There will be a final exam passed out on the last day of class. I will not be passing out the exam early, so please plan accordingly. It will be due no later than 4:00 on May 6. This is a take-home exam. It is open notes, open books, open friends, open faculty. Any late final will result in an incomplete for the course as well as any other penalties.

All papers will be evaluated on their evidence of understanding of the theory and its application to the problem, and on the clarity of writing.

All work is open book, open notes, open friends, open other instructors, etc. The goal is to ensure that you are learning! However, all documents turned in must be yours—consultation is fine, plagiarism is not. See the University rules on plagiarism at:

[http://www.asu.edu/studentaffairs/studentlife/judicial/academic_integrity.htm](http://www.asu.edu/studentaffairs/studentlife/judicial/academic_integrity.htm)

But, please remember, all work will be graded on the assumption that that you took advantage of the opportunity to consult with others.

**Grading**

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<thead>
<tr>
<th>Category</th>
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<tr>
<td>Current Events and Class Participation</td>
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<td>Problem Sets</td>
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<td>Midterm</td>
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<td>Group Project Paper</td>
<td>25</td>
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<td>Final Exam</td>
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Grades will include pluses and minuses.

A note on carefulness: Howard Frank, in his syllabus, has perhaps the best comment on presentation:

> If we were in a bureaucracy, you would not want to turn in a typo-strewn work product with grammatical errors to a superior. I expect nothing less of you here. Stated succinctly—this is graduate-level training, (sic) and I will show little tolerance for poor grammar, spelling, and presentation.

I concur with Professor Frank.
## Calendar

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<thead>
<tr>
<th>Date</th>
<th>Readings</th>
<th>Topics</th>
<th>Assignments</th>
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<tr>
<td><strong>Unit 1: Review of Microeconomic Principles</strong></td>
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<tr>
<td><strong>Week 1</strong></td>
<td>Jan 14</td>
<td>Gruber 1,2</td>
<td>Markets</td>
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<td><strong>Week 2</strong></td>
<td>Jan 21</td>
<td>Gruber 5</td>
<td>Market Failure: Externalities</td>
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<td><strong>Week 3</strong></td>
<td>Jan 28</td>
<td>Gruber 6</td>
<td>Environmental and Health Externalities</td>
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<td><strong>Week 4</strong></td>
<td>Feb 4</td>
<td>Gruber 7</td>
<td>Public Goods</td>
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<td><strong>Week 5</strong></td>
<td>Feb 11</td>
<td>Gruber 8</td>
<td>Cost/Benefit Analysis</td>
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<td><strong>Week 6</strong></td>
<td>Feb 18</td>
<td>Skim Gruber 18.1,18.3 Gruber 19</td>
<td>Tax Incidence Analysis</td>
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<td><strong>Unit 2 State and Local Taxation</strong></td>
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<td><strong>Week 7</strong></td>
<td>Feb 25</td>
<td>Fisher CH 13 &quot;PT: Institutions &amp; Structure&quot; BR: 6,7</td>
<td>Property Taxation</td>
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<td><strong>Week 8</strong></td>
<td>Mar 4</td>
<td>Fisher 15 &quot;Sales and Excise Taxes&quot; BR: 2,3</td>
<td>Consumption, Sales and VAT Taxation</td>
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<td>Week</td>
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<td>10</td>
<td>Mar 11</td>
<td>No Class – Spring Break</td>
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<td>Mar 18</td>
<td>Fisher</td>
<td>Fees, Charges</td>
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<td><strong>Unit 3: Fiscal Federalism</strong></td>
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<td>11</td>
<td>Mar 25</td>
<td>Gruber 10, Fisher 6,9</td>
<td>Intergovernmental Transfers</td>
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<td>12</td>
<td>Apr 1</td>
<td>Gruber 11, Fisher 19</td>
<td>School Finance</td>
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<td><strong>Unit 4: Spatial Location</strong></td>
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<td>13</td>
<td>Apr 8</td>
<td>O’Sullivan 1</td>
<td>Principles of Urban Econ</td>
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<td>Apr 15</td>
<td>O’Sullivan 6</td>
<td>Urban Land Rent</td>
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<td><strong>Course Wrap Up</strong></td>
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<td>Apr 29</td>
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Final Exam: Tuesday May 6 in regular classroom from 6:00 – 7:50 p.m.
Additional Readings

I. Introduction

* Rockefeller Institute of Government (August 2013). “State Revenue Report: Strong Gains in the First Quarter; Mounting Uncertainty for the Rest of 2013” Available at:

http://www.rockinst.org/newsroom/revenue_reports/2013/2013-08-08-SRR_92.pdf

Read pages 1-3, 11-14, and the rest if you have an interest.
The Institute tracks state and local tax revenue changes by quarter. It is a good source if you want to see how state and local governments are doing.

* National League of Cities, (September 2012). “City Fiscal Conditions in 2012.” Available at:

Read pages 1-3 and the rest if you have an interest.
NCL conducts an annual survey of the fiscal conditions of cities.

* Carolyn Bourdeaux and Sungman Jun (January 2011) Comparing Georgia’s Revenue Portfolio to Regional and National Peers. (FRC Report 222) Available at:
http://aysps.gsu.edu/sites/default/files/documents/frc/Rpt_222FIN.pdf

Read pages 1-4 and glance at the rest of the report.
The report provides a comparison of the level of taxes in Georgia to other states.


Read pages 1-6 and the rest if you have an interest.
The Task Force looked at 6 large states and investigated the external forces on the states’ budget and identified 6 major fiscal threats.


2: DETERMINING TAX AND EXPENDITURE LEVEL

* Fisher, Chap 3, “Public Choice Without Mobility.”

In a representative democracy citizens vote for elected officials who in turn vote on tax and expenditure policies. This chapter explores how citizen preferences get reflected in the choices that elected officials make.


Citizens get utility from the provision of public services just as they get utility from private goods and service. So, just as consumers demand for private goods and services depends on prices and income, citizens demand for public services depend on prices and income. This chapter explores the nature of preferences, prices and income in the case of public services and presents estimates of the price and income elasticities.


This chapter explores how changes in demographics and the economy are likely to affect the behavior of SLG.


This article explores the effect of the growth of suburban business on local government spending.


This is the classic piece on the demand for public services. It changed the way economists think about the determinants of government expenditures.

3: MOBILITY

* Fisher, Chap 5, “Public Choice Through Mobility”

One of the main features of subnational governments is the ability of individuals (as workers and residents) and capital to move between jurisdictions.

This is another application of the Tiebout model. You should read it to see how the Tiebout model is applied and what the findings are. Ph.D. students should understand the empirical techniques used.


This is a classic paper. Tiebout’s basic idea that individual choose their jurisdiction based on the taxes and expenditures offered has generated 1000s of paper.


This is one of the first attempts to formally model the Tiebout model.


This paper reviews recent sorting (Tiebout) models.


This is an application of the Tiebout model. You should read it to see how the Tiebout model is applied and what the findings are. Ph.D. students should understand the empirical techniques used.

4: FEDERALISM


Two major policy issues concerns which level of government should provide which service and how large should jurisdictions be. This chapter provides the basic framework for thinking about those issues.


This essay discusses the various ways that the federal government affects SLG revenue and expenditures.
5: PRINCIPLES OF TAX ANALYSIS

* Fisher, Chap 12, “Principles of Tax Analysis.”

This chapter discusses the issues of equity and efficiency of a tax.


6: PROPERTY TAX


This chapter describes the structure of the property tax.

* Fisher, Chapter 14, “Property Tax: Economic Analysis and Effects.”

This chapter explores the economic effects of the property tax, and presents the various views of who pays the property tax.


In 1978, California adopted Proposition 13, which is a limit on the property taxes that local governments can impose. This essay discusses how Prop 13 and subsequent limitations affected property taxes, and suggests what changes are needed to limit the size of government.


This paper fundamentally changed the way that economists think about the property tax. It is a must read for Ph.D. students. It is not required for other students.

This paper provides a numerical description of the property tax in Georgia. It is not required, but recommended if you want to get some sense of size of the components and features of the property tax.


**7: GRANTS/ FUNDING EDUCATION**

* Fisher, Chap 9, “Intergovernmental Grants."

A major source of revenue for state and local government are grant funds. This chapter discusses how grants are designed and the effect incentives that grant provide.


Elementary and secondary education is finances largely through grants from state government to local school systems. The assigned pages from this chapter explore the financing of elementary and secondary education.

In this essay Inman makes a case for suburbs providing funding to their central city.


Grants can have incentives that affect the behavior of the receiving government. This article explores the extent of the response of local governments to state education aid.


This report provides a very detail explanation for how public schools are financed in Georgia. Read it if want a sense of how the funding mechanism works and how complex it is.


8: SALES AND EXCISE TAXES


This chapter provides an overview of the structure of sales and excise taxes, their economic effects, and some of the policy issues.


Just about every state tax reform commission has recommended that services be added to the sales tax base. Fox is an expert on the sales tax and in this reading he discusses
the issues associated with trying to tax services. He also discusses the issues associated with the exemption of food for home consumption.


This is an analysis of how inter-state differences in tax rates affect prices over space. You should read it to see how economic theory is applied and what the findings are. Ph.D. students should understand the empirical techniques used.


The Supreme Court has made it difficult for states to collect sales taxes on sales made over the internet. This essay explains the issue and discusses efforts to overcome the problem.


This is a good discussion and analysis of the incidence of an excise tax. You should read it to see how economic theory is applied and what the findings are. Ph.D. students should understand the empirical techniques used.


This is the one of the few papers that explores the assumption that the sales tax is borne by consumers.


9: INCOME TAX

* Fisher, Chap 16, “Income Taxes.”

This chapter provides an overview of the structure of the personal income tax, its economic effects, and some of the policy issues.
A major question regarding the personal income tax is the extent to which the tax affects the level of income. This article is an attempt to measure the effect of income taxes on the growth of income.


The governor of Oklahoma would like to eliminate the state’s personal income tax. This study presents evidence of how the state’s economy will grow if the income tax is eliminated. This report will be the basis for the class discussion.


This report presents an analysis of possible changes to the Georgia personal income tax. It shows the change in total revenue and in the distribution of tax burden.


11: OTHER REVENUE


Economists argue that it would be better if state and local governments imposed charges for some of the public services offered rather than financing them through taxes and imposing charges when demand exceed capacity. This chapter presents the arguments and theory for doing so.

* Fisher, Chap 18, “Revenue From Government Monopoly and Regulations.”

Many state and local governments operate businesses that in other states are
private businesses. This chapter discusses these business and the issues associated with them.


The legalizing and taxing of gambling has generated a new source of state revenue. This article discusses the way in which states tax casino gambling and the economic issues associated with such taxes.


Many years ago Singapore adopted a policy of charging drivers for using streets. This article explains how this policy works and what effect it has had on driver behavior.


Paul B. Downing and Thomas J. DiLorenzo, "User Charges and Special Districts" in Management Policies in Local Government Finance, Aronson and Schwartz (eds.).