
90-790 State and Local Finance

THE HEINZ SCHOOL

Monday 5:30-8:20 PM
Room 237 Hamburg Hall

Spring 2003

Professor Robert P. Strauss

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Office Hours: 12:30-2:00 M & W and by Appointment A120B Hamburg Hall

E-Mail to RS9F@andrew.cmu.edu

The purpose of this course is to introduce professional masters students to:

1. the principles of finance which should govern the manner in which the federal and subfederal governments pay for the provision of sub-federal services; significant emphasis will be placed on the evolution of federal systems around the world;
2. theories which seek to explain the behavior of sub-federal governments as well as confirmatory evidence in support of such theories;
3. characterization of the professional and political environments which students will face in such governments upon working there.

Where appropriate, comparisons will be drawn from overseas as well as the U.S., and Pennsylvania. The course assumes that each student has had a course in economics, statistics, and is familiar with the use of a spreadsheet and regression package on a personal computer. Also, it is assumed that each student has had a course in public finance, and is familiar with the material in the Musgrave and Musgrave text, *Public Finance in Theory and Practice*.¹ Many of the principles of public finance, e.g. efficiency and equity, are applicable in the study of sub-federal governments.

The course is lecture-discussion. Evaluation will be based on performance in 5 problem sets, a 1.5 hour midterm exam, a 3 hour final exam, May 5 and classroom performance. The weights are:

- 5 problem sets 20% (4% each)
- 1 midterm exam 35% (10 essay questions)
- 1 final exam 35% (15 essay questions)
- class participation 10% (answers about *Session* reading and material)

The problem set topics and dates are:

1 Surfing on the Internet: What's Happened to State Debt Ratios? Out Jan 13 (*Session* 1), Due Jan 20.

2 Managing the Contemporary City, **Sim City II**: Out Feb 17, Due Feb 24

Practicum

Class Project: *Bankruptcy Watch: The City of Pittsburgh*

¹ Students who have not had 90-736 should expect to read this text in parallel with the course.

Finally, a few notes about decorum and classroom manners:

The class begins at 5:30 PM Eastern Standard Time, and students are expected to be in the classroom, ready for the class on or before that time. The room will be closed and locked upon the beginning of class. Portable or cellular telephones, beepers, televisions, and radio headsets are not permitted for use in the classroom. Students are not permitted to eat any food in class (coffee and sodas only). We will take a 15 minute break at approximately half-way through the class (6:30 PM) at which time you can eat outside the classroom.

Any student who leaves the class after it has been started will NOT be permitted to reenter the class. Anyone who attempts to enter the class after it has started will not be permitted to enter the class.

The topical outline of the course is as follows:

1. An Overview of Fiscal Federalism:

Session 1. Alternative Perspectives

2. The American Revolution and Fiscal Federalism:

Session 2. Federalist Papers 1
Federalist Papers 2

3. Federalism Issues Elsewhere

Session 3. Overview, Soviet Federalism and German Unification Issues

4. Policing the States in Search of Economic Efficiency: Legal Track Record

Session 4. Tax Harmonization Issues

Session 5. Federal Limitations on State Power to Tax: 1
Federal Limitations on State Power to Tax: 2

5. Resource Allocation in the State and Local Sector

Session 6. Operating Budgets of State and Local Governments
Capital Allocation in the State and Local Sector: State and Local Debt

Session 7. Capital Allocation in the State and Local Sector: Locational Incentives,
Federal Limitations,

6. State and Local Revenue Instruments on Households

Session 8 Household Revenue Instruments: Personal Income Tax

Session 9 Household Revenue Instruments: Sales Tax 1
Household Revenue Instruments: Sales Tax 2

Session 10: Taxation and the Internet
Random Taxation: Economics of Lotteries and Gambling

6. State and Local Revenue Instruments on Business

Session 11. Business Privacy Issues
Business Revenue Instruments: Franchise Taxes

Business Revenue Instruments: Income Tax
Business Revenue Instruments. VAT Tax, Banks, Location Issues

7. Tax Property Tax

Session 12. Property Tax 1
Property Tax 2

8. The Big Apple's Fiscal Crisis and Local Tax Reform: 2 Case Studies

Session 13. Fiscal Crisis: NYC
Local Tax Reform: Pennsylvania Issues

9. State and Local Education Finance

Session 14 Education Finance 1: The School Property Tax
Education Finance 2: School Aid Formulae

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