

## 90-817 Regional Finance and Education Policy

Professor Robert P. Strauss  
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The purpose of this Heinz course is to introduce professional master's students to the special problems of financing regional governments in a decentralized federal system with a special focus on public education. The course i] reviews theories of federalism from economic and constitutional perspectives, ii] reviews the evolution of the United States from a confederation to a federation, iii] examines financial and political problems associated with jointure, iv] reviews alternative rationales for public financing and provision of education (k-16), v] analyzes distressed school systems and municipal governments, vi] reviews the international evidence on estimated economic returns and distributional effects of k-16 public education and the use of cost-effectiveness and educational production functions, vii] school budgeting issues, viii] the school property tax, ix] intergovernmental relations and the design of school aid formulas, and x] the measurement and implications of student achievement. These issues are examined from positive and normative perspectives, and through the lens of economics and political economy.

Students taking the course are expected to be conversant in basic statistics and its application on a micro-computer, know something about financial accounting or at least have an interest in it, have had an introductory course in micro-economics, and able to apply statistics and economics to real world problem sets that involve the manipulation of data and administrative records. Students who have had *Public Finance* will find taking the course more natural because the issues of the proper role of government in a market or mixed economy, the effects of different kinds of taxation on the distribution of income and wealth, and on economic efficiency will be more familiar. Students who have not had *Public Finance* will likely find it necessary to fill in gaps in their background as the course proceeds, and may have to do supplemental reading. Most required reading will be stored on Blackboard under *Notes and Reading Materials*, and questions to be discussed in class that pertain to the required reading will also be stored on Blackboard in the same folder.

The course is organized into a series of topical sessions, and will be conducted on a lecture-discussion basis. Students are expected to have read the required reading before class. Students are also expected to own and know how to operate an electronic calculator (other than those contained in a cell phone<sup>1</sup>) that is capable of doing  $x^{a/b}$ . Please be sure you bring such a calculator with you to class each session, bring your Strauss Bucks<sup>2</sup> to each session as well, and your answers to course session questions. Generally, students will find that reading the required readings and answering the

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<sup>1</sup> Thanks to Christine Alagara for pointing this out in class several years ago.

<sup>2</sup> See <http://www.andrew.cmu.edu/user/rs9f/pf04.html>.

questions to be discussed at hand will enhance their understanding of the materials to be read. Also, because the midterm and final exams will be based on the questions to be discussed, keeping track of the reading and questions to be discussed will materially aid in the preparation for the two exams.

Students are expected to purchase themselves from an online or non-campus bookstore, a paperback version of *The Federalist Papers*. For example, a Signet Press version of this classic is available from Amazon.com for \$7.95 plus shipping. Whether or not other required readings from various sources will entail other book purchases has not yet been determined.

The T.A. for this course is Ciprian Domnisoru, and he may be reached by email at cdomniso@andrew.cmu.edu. His office hours are on Thursdays from 5:00 to 7:00 pm in HBH 3036 and by appointment.

Evaluation in the course is based on the following formula:

**Final Points= Points Earned out of Normalized Points (100) X (Classes Attended / Total Class Days)**

A “Class Attendance Day” is defined as being in class, seated, not eating food by 5:30 PM, and being in the class continuously without disrupting the class through 8:30 PM. We will take a short break for a snack at about 7:00 PM. A “Class Attendance Day” may also include a pre-approved, excused absence day which is granted by Professor Strauss before the start of a class day. The grading scale, stated in Final Points, typically is:

A 95-100

A- 90-94.9

B+ 85.0-89.9

B 80.0-84.9

B- 75.0-79.9

C+ 70.0-74.9

C 65.0-69.9

C- 60.0-64.9

D+ 55.0-59.9

D- 50-54.9

R < 49.9

Pass/Fail 70 or better

Thus, if a student has earned Normalized Points of 85, but attends class only 50% of the time, the student would earn 42.5 (.5 x 85=42.5) and fail the course. There will be two short essay examinations: a midterm exam on March 15, and a cumulative final exam during finals week. The midterm will be worth 30%, and the final exam will be worth 40%. There

are 7 problem sets worth 4% each. Class participation will be worth 2%. The final examination will cover the entire course, while the term exam will cover the material from the beginning of the semester up to the midterm exam. I will be grading your exams and the TA will be grading your problem sets. Note that all problem sets (except the Sim City problem set) must be handed in on paper, and must be word-processed. Handwritten problem sets will not be accepted. Problem sets handed in after the due date will get penalized for lateness at a rate of 2% reduction in score/day late. Thus a perfectly answered problem set worth 50 points that was 5 days late would be worth  $50 \times (1 - (.02 \times 5)) = 50 \times (1 - .1) = 45$  points.

If you believe that you have been unfairly graded, the procedure for appealing a grade is to put a post-it with a request for re-grading on the problem set or exam, give it to me, and I will re-grade it privately and return it to you with the revision if any in your grade. Please be advised that in submitting a problem set or exam for regarding, I reserve the right to re-grade other parts of it.

Each course session covers a series of topics. Sessions 1-7 deal with core regional finance issues and Sessions 8-13 deal with core education issues.

Session 1: Course Overview, Alternative Perspectives on Fiscal Federalism

Session 2: The American Revolution and Fiscal Federalism: The Federalist Papers

Session 3: Federalism Elsewhere

Session 4: US Federal/State Issues

Session 5: US Federal/State Issues: Constitutionality of Affordable Health Care Act of 2010

Session 6: Resource Allocation in Regional Governments, School Districts

Session 7: Property Taxation

Section 8: Local Governmental Financial Crises

Session 9: Perspectives on Education

Session 10: Curriculum Alignment, Coverage, Standards, Anchors

Class Meeting	Topic
1	<b>Session 1: Course Overview, Alternative Perspectives on Fiscal Federalism</b> 1.1 Centralized View 1.2 Decentralized View 1.3 Posner on Economics of Federalism

	Spatial Issues: Video from TED
	Martin Luther King Day, No Class
2	<p>Session 2: <b>The American Revolution and Fiscal Federalism: Federalist Papers</b></p> <p>2.1 Confederacy Problems</p> <p>2.2 Federalism, US Style</p>
3	<p>Session 3: <b>Federalism Elsewhere</b></p> <p>3.1 Federalism and a Macro-Economy</p> <p>3.2 Federalism: Devolution/Divorce</p> <p>3.3 Federalism: Shotgun Marriage:</p> <p>3.4 The Unitary State: Japan</p>
4	<p>Session 4: <b>US Federal/State Issues</b></p> <p>4.1 US Constitution: Commerce Clause</p> <p>Discrimination</p> <p>4.2 US Federal Limits on State Power to Tax</p>
5	<p>Session 5: <b>US Federal/State Issues: Constitutionality of Affordable Health Care Act of 2010</b></p>
6	<p>Session 6: Resource Allocation in Regional Governments, School Districts</p> <p>6.1 Public Budgeting</p> <p>6.2 Capital Allocation</p>
	Midterm
	Spring Break
7	<p>Session 7: Property Taxation</p> <p>7.1 Mechanics</p> <p>7.2 The School Property Tax and Its Use in Education Finance in the US</p> <p>7.3 Behavioral Effects of Property Tax</p>

8	<p>Session 8: Local Governmental Financial Crises</p> <p>8.1 A Framework for Understanding Municipal Default</p> <p>8.2 History of New York City’s Bad Ways</p> <p>8.3 SEC Report on NYC</p> <p>8.4 Senate Banking Committee’s views on the NYC</p> <p>8.5 The Amended and Restated Agreement</p> <p>8.6 School Districts in Crisis: School district in Detroit</p>
9	<p>Session 9: Perspectives on Education</p> <p>9.1 Human Capital Theory</p> <p>9.2 Alternatives</p> <p>9.3 School Aid Formulae <i>Per Se</i></p>
10	<p>Session 10: Curriculum Alignment, Coverage, Standards, Anchors</p> <p>10.1 ESEA/NCLB</p> <p>10.2 Professional Practice</p> <p>10.3 National and Pa Math Standards</p> <p>10.4 How People Learn</p>
11	<p>Session 11: Student Assessment, <i>Per Se</i>:</p> <p>11.1 Testing,</p> <p>11.2 Fair Tests,</p> <p>11.3 Test Design,</p> <p>11.4 Interpretation,</p> <p>11.5 Types of Tests,</p> <p>11.6 Value-Added and Interpretation</p>
12	<p>Session 12: All about Teachers:</p> <p>12.1 Teacher Preparation</p> <p>12.2 Teacher Certification and Teacher Testing,</p> <p>12.3 Recruitment,</p> <p>12.4 The Hiring Decision</p> <p>12.5 Withdrawal and Retention</p> <p>12.6 Double Dipping</p> <p>12.7 Do Teachers Matter?</p>
13	<p>Session 13: State and Local School Governance Issues/Politics</p>

	Final Exam
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**Problem 1:** What's happening with state and local debt?

**Problem 2:** Would A Payroll Preparation Tax be Constitutional in Pennsylvania?

**Problem 3:** Analysis of Property Tax Optional Analysis of PSSA Scores

**Problem 4:** Budgeting Scarce Resources: Sim City (**Group Project**)

**Problem 5:** Reliability, Validity, and Value Added Modeling (**Group Project**)

**Problem 6:** Determinants of Student Level SAT scores in Pennsylvania (**Group Project**)

**Problem 7:** Evaluating Pennsylvania's Academic Standards for Mathematics and Reading