Organization of the seminar "Public Economics" FALL 2013

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1. SUMMARY

This course aims first to let you get acquainted with scientific research on several topics of the subject field of fiscal federalism in Public Economics. Second, after this course you will be (better) able to read and talk about scientific papers. In this class you will be part of a 3 or 4 students team that presents two journal papers, or prepares discussion questions on journal papers, or collects news items related to the subject of the journal papers. The journal papers are all dealing with fiscal-federalism topics. Below you will find the schedule of this class. The exam will be an oral exam, and your final grade will be determined by your achievement during the exam and your participation in class. Details on all this you can find in the sequel of this text. Please read this text carefully before classes start, so that you know the "rules of the game" beforehand.

2. SET UP

Depending on the number of enrolled students (probably between 20 and 50) we will have 1 or 2 classes during the presentation phase of the course. In both classes English is the first language. The formation of the students teams will take place in the first meeting. Experience learns that the number of students that intends to take this class remains uncertain until after the first meeting. As a result, the formation of the teams can take some time, even some weeks. I try get the teams formed as soon as possible, but it might take some time before the final class schedule can be composed. It will help, however, if you make up your mind quickly whether, or not, you want to take part in this learning experience. Class hours and class rooms can be found here.

Classes start with 3 general lectures. These general lectures will give an introduction into the subject field of Fiscal Federalism, and provide for an overview of the covered material, and will be for all students simultaneously. It is not compulsory to attend these lectures, these are only intended to bring all students on equal footing. After those lectures, we have 6 presentation lectures (PL1-PL6). During these lectures student teams will, in turn, present journal papers.

A word about the nature of these journal papers. Some of these papers you might consider to be rather technical, i.e. containing a lot of math. It is true that for academic economists mathematics has become a part of the communication language. If you want to become an all-round economist, you should at least have experienced how mathematical expressions are used in deriving economic propositions. This class gives you an excellent opportunity to become acquainted with the use of math in economics papers. Obviously, math is only a means of expression; behind the math there is always economic content. One of the gratifying experiences of this seminar is that you will discover that you can find meaning, i.e. economic meaning, behind formula that seem dark at first sight.

The precise schedule of the PLs is posted on Blackboard. If you are scheduled to attend the PL classes, you will have to be present (see below for provisions of missed classes). The contents of the PL lectures are listed below. If you are scheduled for “absence”, you can show up if you want to, but you don’t need to.

All teams that are scheduled to be in class are supposed to have read the papers that will be discussed that day in class. Without having read the papers it does not make sense to attend class (although you have to attend anyway).

Each PL lecture contains three elements: presentation, discussion and news items. These items will now be discussed in turn.

Presentation

Each PL, we have two journal papers for presentation by the presentation team. For each presentation 50 minutes will be reserved. After the second presentation, a discussion on the news items will take place (see below).

How the team members divide the presentation task among the team members is up to themselves, but the whole team is responsible for the presentation of both papers. Each team member has to present a part of the papers. Time management during the presentation is The allocation of the presentation time should be more or less evenly spread across the team members. If one of the team members is using too much time in the presentation, implying that other team members do not have time enough to present their part of the paper, that will lead to a lower grade for the whole team.

It is possible, and indeed advisable, but not compulsory, to arrange a meeting with me a week or so before the presentation, to discuss the difficult parts of your journal papers. The teams should take the initiative to set the date with me for such a discussion. I want to emphasize that it certainly ‘helps’ if you discuss your papers with me.

In class you have to explain the model that is used in the journal papers in broad terms, and to give the most important results of the papers.

Present your material in such a way that your audience is incited to engage into a discussion on the contents of the papers.

During the presentations the other attending students are expected to interrupt the speakers if anything unclear turns up, or if some parts of the journal paper have to be elucidated. Given the possibility of interruption, you should prepare a presentation of somewhat less than **25 to 30 minutes** for each paper. That means that you will not have time to explain all the technical details of the paper. The most important aim of the presentation is to communicate to the audience the message of the papers, and how the model the authors are using, helps in deriving this message. Sometimes the message might be hard to find in the technical details of the paper, but I expect the teams to have found out during preparations of the presentation how the technical details contribute to the message. Remember that technical details always should have an intuitive economic interpretation. It can never be the purpose of the presentation to merely present formula after formula.

One or two members of the “news team” will get the task of evaluating the presentations. Based on a checklist of relevant criteria, that will be handed to you at the beginning of class he/she marks the strong and weak points of the presentation of the team as a whole and of each individual speaker separately. Some criteria are related to the presentation skills of the speakers, some criteria are more related to the way the content of the presented journal paper is communicated to the audience. The checklist will be posted on the blackboard, but hard copies will be available in class (so it is not necessary to print the list yourself). At the end of each presented paper each "observer" gives in a few minutes a very brief evaluation of the presentations and hand in his/her notes at the teacher.

Discussion

For each paper that will be presented two or three other teams independent from each other prepare at least five questions that have to be raised during the presentations. These questions can be anything that comes up related to the paper. For instance, it can be a technical detail of the paper that is unclear, an interpretation of a result, an assumption that is unclear or non-realistic, etc.. For a better understanding of the paper being presented it is most helpful if at least some questions pertain to the mechanics of the model that is used in the paper. So, a question like: "how can model A in paper X generate unemployment while there is perfect competition?" is more interesting than the question "why is perfect competition assumed in paper X?" Although it is certainly allowed to raise questions about assumptions, don't restrict yourself to such questions, but also try to dig somewhat deeper into the model. That will generate you and your team higher marks than only raising issues regarding assumptions of the models in the paper. Avoid as much as possible questions that go like: "How would the results of the paper be if the author had made another assumption on this or that?" These types of questions can easily be raised, but are almost impossible to answer for the students that are presenting the paper as that would necessitate going through all the analytics of the model of the paper.

The questions have to be handed in at the teacher by e-mail <u>not later</u> than Tuesday 5PM. Moreover, you collect your discussion questions in a Word-file so that I can save them and make remarks in the text. On top of the first page you write "**PLx by Group y"** where **PLx** refers to the number of the presentation week (1 to 6) lecture and **Gy** refers to your group number (1 to 6). In order to avoid misunderstanding you should also write down the names of the team members in your group. Actually, you should save your discussion questions yourself too as they can be used by me in your oral exam.

On the Wednesday before class you will receive an e-mail from me in which I indicate without motivation which questions I consider to be good questions (yes= good, no= not good).

The (good) discussion questions have to be asked during the presentation when the relevant part the questions are related to is being presented. So, don't wait until the presentation is over with raising your questions.

Please, do not discuss your questions before the class hours with the presentation team. Although I understand that you would all feel more comfortable if you get the questions that will be posed during your presentation beforehand, understand that getting unexpected questions is also a part of the learning experience. Moreover, if you have difficulties with answering one or more questions, your team members are there to give you a hand.

In my e-mail I indicate a grade that your discussion group can obtain for the questions. This grade will only be given, however, if your group has taken part in the discussion. If your group has not raised any of the submitted questions, a lower grade will be given. Notice that if you raise a question during class this will not only lead to a group grade, but this will also contribute to your individual grade (see below for grading). So, discuss beforehand with your group who will ask which question in class, and try to allocate the questions to your group members such that every group member gets a fair chance to express him- or herself.

Obviously, if during the presentation questions pop up that you did not think of before, but of which you think on the spot that you should raise them to understand the paper that is being presented, you should not hesitate to raise these questions.

News items

One other team will take care of collecting at most 2 newspapers clippings, which are related to the subject of the journal papers. These can be recent news articles, but can also be articles of up to 5 years ago. You can use international newspapers for collecting the newspaper clippings. Don't collect overlong articles; such articles sometimes come (too) close to scientific papers. Moreover, one short article that hits the point you want to make is better than two long articles that don't hit a point at all.

The news team gives a description of the items to be discussed in an e-mail message to all the participants of this class (including the teacher) on the Wednesday before the class before 5pm. In this mail you try to connect the newspaper article(s) to the papers that are scheduled for presentation, and you try to formulate some propositions you want to discuss in class.

If you have the newspaper articles on line, send them with your e-mail message, otherwise keep copies available for redistribution in class. The team that collected the newspapers clippings will be in charge of moderating a discussion in class on the issues covered in the clippings, preferably by taking some position. But, try to be as brief and focused as possible. Remember, though, that a better discussion might evolve if you start with some provocative proposition ("Greece should be thrown out of the Eurozone") than to start with some subtle questions to the audience. This discussion will take place after the two paper presentations. At the end of the discussion the news team itself is asked to draw a conclusion on the debate.

As mentioned above under the section "Presentation", another task of this team is to supply observers (one or two students for each journal presentation) for evaluating the presentations.

Grading

You will be graded for all above tasks (presentation, discussion and news) and you will get a grade for your overall participation in class. The quality of the discussion questions and the quality of the news clipping will lead to a "team" grade. Presentation, raising questions, or participating in discussions will lead to an “individual” grade. Giving individual grades is not an easy task for any teacher. The teacher’s subjective impression of students’ class preparation is inevitably playing a role. However, if a student is never asking questions or is never participating in news discussions a low grade cannot be avoided. Strikingly, it regularly happens that good questions submitted by a discussion group are not raised during the class presentation. This is just wasting grades!

The individual grade will be based on your participation in the discussion on the journal papers (if you were not in the presentation team), and in the news (if you were not in the news team). So, this part of the grade is <u>not</u> based on the performance of your team, but <u>only</u> on your own behavior in class. It might be the case that I did not notice that you participated (according to the above definition) in the PL that you attended. You can always fix that next class by participating even more than you already did, hoping that it attracts my attention. Everybody is allowed to be as active as she/he wants, and there are no hurdles. It is your own choice. I will not negotiate about this grade.

All these grades combined with some weights for each activity (presentation, discussion, etc.) will lead to a final class grade. If possible, your current class grade will be posted on the Blackboard after each presentation lecture, as soon as possible.

This final class grade will count for 60% in your final grade. The oral exam counts for 40%. The final marks will be rounded up to integers and one half. The only exception is that a 5.5 will not be granted.

Missed classes or late handed-ins!!

If you are scheduled to attend a class, you are expected to attend this class, and you are expected to arrive in time. For each scheduled class that you are missing (for good or for bad reasons), you will have to add one more journal paper for the exam. It is certainly not permitted that if you are scheduled to attend the morning (afternoon) class, that you attend the afternoon (morning) class instead. The above sanction then applies nevertheless. Moreover, if you come too late in class, and/or if you leave before the end of class for the second time (again, for bad or for good reasons), you will also have to add an additional paper to the exam. If your team failed to hand in the questions on the journal paper in time, or if your team did not distribute by e-mail a description of the news clippings in time, you and your team members will have to add one more journal paper for the exam. So, if you make one of your team members responsible for sending in the due tasks, don’t forget to check whether he/she is sending in the materials in a proper way (for instance by requiring a c.c. at the e-mail message).

If you have to give a presentation, but you are not able to comply (again, for good or for bad reasons), you will not be able to pass the exam.

[I am sorry for having to be strict, but this is, of course, based on past experience, with only very few students. Of course, I expect these rules to be redundant for you all].

Allocation of time in class

PL classes are organized as follows (if the class starts at 9.45):

time in class

50 minutes: first presentation	9.45-10.35
5 minutes evaluation by student observer	10.35-10.40
15 minutes break	10.40-10.55
50 minutes: second presentation	10.55-11.45
5 minutes evaluation by student observer	11.45-11.50
15 minutes break	11.50-12.05
25 minutes: news	12.05-12.30
end of class	12.30

3. CONTENTS OF THE LECTURES

GL1. Overview of PL1-PL6

GL2/3. General: Fiscal federalism and Tax competition

Boadway, R. and D.Wildasin (1984), *The theory of fiscal federalism* (Chapter 15 from: Public Sector Economics), pp. 497-543.

Hendriks J. and G.D. Myles (2004), *fiscal federalism* (Chapter 19) and *tax competition* (Chapter 20 from Intermediate Public Economics).

Lecture sheets.

PL1: Centralization versus decentralization in a federation:

Alesina, A., I. Angeloni, and L.Schulknecht (2005), International unions, *American Economic Review*, vol.95, 602-615.

Besley, T. and S.Coate (2003), Centralized verusus decentralized provision of local public goods: a political economy approach, *Journal of public economics*, vol. 87, 377-394.

PL2: Bidding for firms:

Black, D.A. and W.H.Hoyt (1989), Bidding for firms, *American Economic Review*, vol.79, 1249-1256.

Fuest, C. and B. Huber (2006), Can regional policy in a federation improve economic efficiency?, *Journal of Public Economics*, vol. 90, 499-511.

PL3: Factor mobility and social policies:

Kessler, A.S., N.A. Hansen and C. Lessmann (2011), Interregional redistribution and mobility in federations: a positive approach, *Review of Economic Studies*, 1-34.

Perotti, R. (2001), Is a uniform social policy better? Fiscal federalism and factor mobility, *American Economic* Review, vol. 91, 596-610.

PL4: Brain drains:

Haupt, A. and E. Janeba (2009), Education, redistribution and the threat of the brain drain, *International Tax and Public Finance*, vol. 16, 1-24..

Stark, O. and Y. Wang (2002), Inducing human capital formation: migration as a substitute for subsidies, *Journal of Public Economics*, vol. 86, 29-46.

PL5: Stability and growth pact in the EU:

Cooper, R., H. Kempf and D. Peled (2010), Regional debt in monetary unions: is it inflationary?, *European Economic Review*, vol. 54, 345-358.

Milesi-Ferretti, G.M. (2004), Good, bad or ugly? On the effects of fiscal rules with creative accounting. *Journal of public economics*, vol. 88, 377-394.

PL6: Environmental policies in a federation:

Santore, R., H.D. Robinson and Y.Klein (2000), Strategic state-level environmental policy with asymmetric pollution spillovers, *Journal of Public Economics*, vol. 80, 199-224.

Williams III, R. C. (2010), Growing state-federal conflicts in environmental policy: the role of market-based regulation, *National Bureau of Economic Research*. Working Paper 16184.

Apart from the Boadway and Wildasin (1984) and Hendriks Myles (2004) texts, all of the above papers will be posted on the Blackboard for this course. The Boadway and Wildasin texts will be made available for copying during class hours. The Hendriks and Myles text is available as an e-book in the University library.

4. SCHEDULE FOR CLASSES SEMINAR PUBLIC ECONOMICS

The following schedule is tentative and can be subject to change. The final schedule will be posted on BlackBoard.

Lecture	**Presentation**	**Discussion**	**News**	**Week**	**Day**	**Absence**
GL1	HV	-	-	40	Oct 4	
GL2	HV	-	-	41	Oct 18 (?)	
GL3	HV	-	-	42	Oct 25	
PL1	G1	G6,G3,G5	G4	44	Nov 1	G2
PL2	G2	G1,G4,G6	G5	45	Nov 8	G3
PL3	G3	G1,G2,G5	G6	46	Nov 15	G4
PL4	G4	G2,G3,G6	G1	47	Nov 22	G5
PL5	G5	G1,G3,G4	G2	48	Nov 29	G6

PL6	G6	G2,G4,G5	G3	49	Dec 6	G1

Notice that in order to keep the discussion in class feasible, the size of the group of participating students should not be too large. One way of achieving that is by giving during each presentation lecture some students leave of absence. This is indicated in the above table under absence. Another way of achieving this is by splitting the class in two groups. This will be done if more than students attend this course. Notice that you are allowed to miss the class if your group is on the "absence list", but that it is not forbidden to participate nevertheless.

5. THE EXAM

The exam will be an oral exam, lasting for about 25-30 minutes. These exams will be held over a few days. You can register for a slot, as soon as the slots are posted on the blackboard. The requirements for this exam are:

1. The general readings;
2. The 2 journal papers of the PL you were involved in for presentation during the PL lecture.
3. 3 other journal papers that you pick from the PLs you were involved in for discussion. Your discussion questions, formulated for the PLs, will be part of the exam. You can modify these questions if you want. These papers have to be taken from <u>different</u> PLs.
4. One other journal paper that can come from a PL you were involved in for discussion, for the News, or for which you were scheduled to be absent.
5. Additional journal papers for missed classes and late handed-ins.

The list of the papers you want to be examined about has to be handed in (by e-mail) one week before the exam. Please include the discussion questions of the four journal papers mentioned under point 3 above (but please combine it all in **one** document). During the exam you can take all the journal papers with you. But, do not think that in that case you do not have to completely master the journal papers beforehand.

Summing up, for the exam you are supposed to have studied the general literature, to know all the details of 6 journal papers, i.e. those you have presented with your team and 4 other papers that you have formulated discussion questions about from the PLs above.

During the exam I will ask you one question about the general lectures and questions about 4 journal papers. You can be sure that you will get questions about one of the presentation papers of your group. As we have only thirty minutes for your exam, that implies that on average we only have at most some 5 minutes to discuss a journal paper. In that restricted time you have to make clear to me that you understand the paper. That means that you have to be very to the point and very brief in your answers. This also implies that although you are allowed to consult papers during the exam, you cannot spend much time on inspecting them during the exam. Any loss of time because of browsing through papers and so on, will lead to a lower grade.

The average of the mark obtained in the oral exam and the final class grade determines the final mark for this seminar, with weights of 0.4 and 0.6, respectively. The oral exam counts for 40%, **but the grade for the oral exam has to be higher than 5.5**.

Notice that you will get **one** opportunity to pass the exam this autumn term. So, please be sure that you register for the right time and date. Dates for a resit will be scheduled for next year May, or June. If needed, you get **one** additional possibility. If you have not succeeded in passing the exam before the summer next year (2013), you will have to attend a new course all over again [I am sorry for having to be so strict, but this is, of course, again based on past experience. I expect these rules to be redundant for you all].

6. FINAL MARK

As noted above, your final mark will consist of your class grade and the grade you obtained during your exam. Regarding the class grade, this will be composed of the following items: your presentation, the quality of the discussion questions (including the discussion itself), the news clippings you collected with your team, and your overall individual participation in class. These items get a weight of 0.4, 0.25, 0.15 and 0.2, respectively. Your performance in the exam itself counts for 40%,, your class grade for 60%, but, as stated before, the grade obtained at the exam has to a 5.5 at least. Notice that on average some 5% of the students have failed this course the last couple of years which was completely due to the last provision!