KPPI 480: PUBLIC ECONOMICS FOR BUSINESS LEADERS:
STATE AND LOCAL POLICY

Kellogg School of Management
Fall Quarter 2019
Section 31, Mondays and Thursdays, 10:30 a.m. - 12:00 noon

Draft Syllabus: July 12, 2019

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Office: 4247 Kellogg Global Hub, 847.491.8683

Students can find useful resources for safety and security, academic support, and mental and physical health and well-being on the NU help website and app.

Course Overview
As future business leaders, Kellogg graduates will be expected to have thoughtful responses to public policy questions, especially those related to business. Students who are interested in the role of state and local governments in a market economy and the impact of state and local fiscal policies on business decisions will benefit from this course. We will consider such topics as:

- Is competition (through tax breaks, for example) among states and localities for companies that are relocating or expanding their operations good for society? Examples: Amazon’s HQ2, Foxconn, Archer Daniels Midland
- What are the most effective options for improving student outcomes in public schools?
- Cities are at the heart of a nation’s economic growth, innovation and creativity. How can we insure that cities remain financially viable?

Prerequisites
Microeconomics is the foundational discipline for the course, thus MECN 430 is a prerequisite for the class. Those who have not taken MECN 430 will need permission from the instructor to take the class. In addition, some microeconomic concepts that were not covered in MECN 430 are necessary for understanding public economics. These concepts will be taught in the class.

Class Etiquette
As you know, Kellogg has established a series of guidelines to make sure that the classroom environment enhances the learning experience for all students. Please take the time to familiarize yourself with the Classroom Etiquette code.
http://www.kellogg.northwestern.edu/stu_aff/policies/etiquette.htm

Please note the following:
1. Students are expected to attend every class. If you are unable to attend class for an unavoidable reason, you must notify the instructor in advance.
2. Students are expected to be ready to begin class on time and not to leave during the 90 minutes of each class unless an emergency arises.
3. Students are expected to **prepare for class** by reading and analyzing media articles and scholarly reports posted on Canvas.
4. Students are expected to **turn off and stow cell phones and other electronic devices.** On the rare occasions when laptops or tablets are needed for class, the instructor will inform students in advance.

**Determination of Grades**
Grades will be based on a combination of class participation, two homework assignments, two group project papers, two closed-notes exams, and peer evaluations. The distribution of points is as follows:

<table>
<thead>
<tr>
<th>Component</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Class Participation</td>
<td>10%</td>
</tr>
<tr>
<td>Homework Assignments (two assignments, each worth 10%)</td>
<td>20%</td>
</tr>
<tr>
<td>Group Projects (two projects, each worth 15%)</td>
<td>30%</td>
</tr>
<tr>
<td>Midterm Exam (Monday, October 28)</td>
<td>25%</td>
</tr>
<tr>
<td>Final Exam (choice over two dates TBD)</td>
<td>15%</td>
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100%*

*The instructor will consider peer evaluations when determining course grades.

**Class Participation**
Students are expected to participate in class discussions of lecture material, readings, and assignments, and to engage with guest speakers. The instructor will assign points based on the quality of participation more so than the quantity. Quality participation consists of comments and clarifying questions that move the conversation forward and enhance the learning of classmates.

**Homework Assignments**
The instructor will present scenarios whereby state or local policymakers have hired you as a consultant to advise them on a problem. The general topic areas for the two homework assignments are:

1. spurring economic development in an urban area
2. addressing state or local budget or public pension woes

Each homework assignment will present two possible solutions to the problem. You will be randomly assigned to one of the two solutions. Your task will be to write a short report in which you analyze the issue and argue for your assigned solution to the problem. In addition, on the day we discuss each homework assignment we will debate the merits and demerits of the two solutions with your classmates.

**Two-page report**
The brief report should be no more than two pages in length, double-spaced, 12-point font (including any endnotes, source information or figures/graphics). Please submit as a pdf document. Aesthetically, you should prepare your report as though you were submitting it to a real client (with your name and your client’s name on the memo).

**Due dates**
Each homework assignment is due at 12:00 noon on the day before we discuss the assignment in class (see course outline).

**Homework grade**
The basis for the grade for each homework assignment will be the instructor’s evaluation of the written report.
The ability to engage in thoughtful class discussion of the solutions to the homework assignments will contribute to students’ class participation grades.

**Group Projects**
The instructor will randomly assign students to groups.

The instructor will present scenarios whereby a business entity/organization – your group – has to make a strategic decision that involves interacting with the public sector. The tentative topic areas for the two group projects are:

1. a real estate development firm deciding in which of two cities to build a new apartment building
2. a charter school network deciding whether to open new schools in its home city or another city

Your team’s task will be to write a short paper in which you present the case for the course of action you recommend your organization take. In addition, we will take time in class to discuss the decisions chosen by the groups.

**Paper**
The paper should be **no more than six pages in length, double-spaced, 12-point font** (excluding graphs, appendices, and source information). Please submit as a **pdf document**. The typical paper would explore the market conditions and public policy landscape in the two cities, present the case for choosing one city over the other, and provide an outline of a business plan for the recommended decision.

**Due dates**
**The paper for each of the two projects is due at 12:00 noon on the day before we discuss the project in class** (see course outline).

**Group project grade**
The basis for the grade for each project will be the instructor’s evaluation of the written paper. The instructor will take into account the team’s ability to frame the situation clearly, to bring compelling information to bear on the question, and to make the case for its proposed decision.

The ability to engage in thoughtful class discussion of the decision-making process involved with each project will contribute to students’ class participation grades.

**Exams**
There will be two exams – **a midterm exam (during class on Monday, October 28) and a final exam (offered on two different dates during the exam period)**. Both will be closed-notes exams, proctored by the professor. The exams will consist of true-false, problem-solving, and short-essay questions. The instructor will distribute additional information in class prior to the exams.

**Peer Evaluations**
Each student will evaluate the contributions and performance of the members of his/her group. The instructor will consider these evaluations when determining course grades.
# Course Outline – Fall 2019

<table>
<thead>
<tr>
<th>Topic</th>
<th>Session</th>
<th>Day: Date</th>
<th>Lecture Focus &amp; Special Topics</th>
<th>Assignment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>1</td>
<td>Mon: Sept 23</td>
<td>Introduction to the Class</td>
<td></td>
</tr>
</tbody>
</table>
| Externalities                        | 2       | Thu: Sept 26  | Externalities  
**Traffic congestion**                                                                                                                                         |                             |
| Public Goods                          | 3       | Mon: Sept 30  | Public Goods  
**Business Improvement Districts and TIF**                                                                                                                     |                             |
*The relocation of Boeing’s corporate headquarters*                                                                                                              |                             |
|                                       | 5       | Mon: Oct 7    | Guest Speaker: TBD                                                                                                                                             | Homework #1 discussion      |
| Fiscal Federalism                     | 6       | Thu: Oct 10   | Fiscal Federalism Around the Globe                                                                                                                             |                             |
|                                       | 7       | Mon: Oct 14   | Fiscal Federalism American Style  
**ARRA; NCLB and ESSA**                                                                                                                                         |                             |
|                                       | 8       | Thu: Oct 17   | Recap: Policies to address neighborhood distress                                                                                                               | Group project #1 discussion |
| Education                             | 9       | Mon: Oct 21   | K-12 Public Education: Outcomes and Fairness                                                                                                                    |                             |
|                                       | 10      | Thu: Oct 24   | K-12 Public Education: Reform  
**Charter schools and vouchers**                                                                                                                              |                             |
| Midterm Exam                          | 11      | Mon: Oct 28   | Midterm Exam (closed-notes; proctored by the professor)                                                                                                         |                             |
| Education (cont’d)                    | 12      | Thu: Oct 31   | Guest Speaker: TBD                                                                                                                                             |                             |
|                                       | 13      | Mon: Nov 4    | Higher Education                                                                                                                                                |                             |
|                                       | 14      | Thu: Nov 7    | Recap: Policies to address poor student outcomes                                                                                                               | Group project #2 discussion |
| State and Local Taxation              | 15      | Mon: Nov 11   | Principles of Taxation  
Income Tax and Sales Tax                                                                                                                                            |                             |
|                                       | 16      | Thu: Nov 14   | Property Tax  
Reining In the Property Tax  
**California’s Proposition 13**                                                                                                                                       |                             |
| Budget deficits and other funding    | 17      | Mon: Nov 18   | State and Local Budget Woes  
*The crisis with public pensions*                                                                                                                                       |                             |
| topics                                | 18      | Thu: Nov 21   | Affordable Housing                                                                                                                                             | Homework #2 discussion      |
|                                       |         | Nov 25-29     | **Thanksgiving Week - No Classes**                                                                                                                             |                             |

Course Outline continued on next page…
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<th>19</th>
<th>Mon: Dec 2</th>
<th>Guest Speaker: TBD</th>
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<tbody>
<tr>
<td>Summing up</td>
<td>20</td>
<td>Thu: Dec 5</td>
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<tr>
<td>Final Exam</td>
<td>Week 11</td>
<td>A choice over two dates TBD</td>
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**Calendar of assignment due dates – Fall 2019**

*Please submit all assignments via Canvas. Please submit as pdf documents.*

HW#1 is due by no later than 12:00 noon Sunday, October 6
GP#1 is due by no later than 12:00 noon Wednesday, October 16
GP#2 is due by no later than 12:00 noon Wednesday, November 6
HW#2 is due by no later than 12:00 noon Wednesday, November 20