[PRELIMINARY SYLLABUS –SUBJECT TO REVISION]

API-142: Regional Economies: Finance and Policy
“Economics for Governors and Mayors”

This course will begin by exploring the unique features of local, as opposed to national, economies. We will consider issues including regional convergence, capital and labor mobility, agglomeration, and capitalization. Having established an analytical framework for thinking about local economics, the course will turn to the institutions of sub-national governments and the challenges associated with state and local government financing. We will discuss how existing state and local government policies affect economic outcomes and consider the feasibility and desirability of a number of “place-making” policies.

Class Time: Monday and Wednesdays 11:40–1:00
Location: L332

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Requirements

There will be written homework assignments, a midterm examination and a take-home final examination. The final course grade will be weighted as follows: participation (5%), written assignments (30%), midterm exam (25%), and final exam (40%).
# OVERVIEW OF LECTURES

## Framework for Local Economies

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<th>Date</th>
<th>Topic</th>
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<tr>
<td>Jan 26</td>
<td>Regional Income Differences &amp; the Neoclassical Model</td>
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<tr>
<td>Jan 28</td>
<td>Neoclassical Model Assumptions and Capital Mobility</td>
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<tr>
<td>Feb 2</td>
<td>Fixed Factors I: Theories of Agglomeration</td>
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<td>Feb 4</td>
<td>Fixed Factors II: Trade Costs, Natural Advantages and Institutions</td>
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<td>Feb 9</td>
<td>Labor Mobility I: Spatial Equilibrium</td>
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<td>Labor Mobility II: Business Cycle Adjustments</td>
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<td>Feb 18</td>
<td>Housing &amp; Capitalization</td>
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<td>Feb 23</td>
<td>Wrap-up: Regional Income Differences and Migration</td>
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## Financing State & Local Governments

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<td>Feb 25</td>
<td>The Basics of Taxation</td>
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<td>Mar 2</td>
<td>Incidence with Mobility &amp; Capitalization</td>
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<td>Mar 4</td>
<td>Spillovers and the Limits of Voting</td>
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<td>Mar 9</td>
<td>Competition between Governments</td>
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<td>Mar 11</td>
<td><strong>IN CLASS MIDTERM</strong></td>
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<tr>
<td>Mar 23</td>
<td>Central and local government interactions</td>
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<td>Mar 25</td>
<td>Central and local government interactions II</td>
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<td>Mar 30</td>
<td>Equalization: School Finance</td>
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## State & Local Government Economic Policies

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<tr>
<td>Apr 1</td>
<td>Place-Making Policies?: In Class Debate</td>
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<td>Apr 6</td>
<td>Debate Recap &amp; Tax Incentives</td>
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<td>Apr 8</td>
<td>Minimum Wages</td>
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<td>Apr 13</td>
<td>Regulation</td>
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<td>Apr 15</td>
<td>Million Dollar Plants, Stadiums, etc.</td>
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<td>Apr 20</td>
<td>Fiscal Multipliers I: Open Economy IS-LM</td>
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<td>Apr 22</td>
<td>Fiscal Multipliers II: Open Economy IS-LM 2</td>
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<td>Apr 27</td>
<td>Fiscal Multipliers III: Empirical Evidence</td>
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<td>Apr 29</td>
<td>Example: The Euro</td>
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<td>Apr 27</td>
<td>Example: The Great Recession</td>
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<td>Apr 29</td>
<td>Course Review</td>
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COURSE OUTLINE AND READINGS

1. **Introduction, Regional Income Differences & the Solow Model**
   Robert Barro & Xavier Sala-i-Martin, “Convergence”

2. **Solow Model Assumption and Capital Mobility**

3. **Fixed Factors I: Theories of Agglomeration**
   Hoyt Bleakley & Jeffrey Lin, “Portage: Path Dependence and Increasing Returns in US History”

4. **Fixed Factors II: Trade Costs, Natural Advantages and Institutions**
   Donald Davis and David Weinstein “Bones, Bombs and Break Points: The Geography of Economic Activity”
   Adam Storeygard, “Farther on down the road: transport costs, trade and urban growth”

5. **Labor Mobility I: Spatial Equilibrium**
   Ed Glaeser, “The Economic Approach to Cities”

6. **Labor Mobility II: Business Cycle Adjustments**
   Olivier Blanchard and Larry Katz, “Regional Evolutions”

7. **Housing & Capitalization**
   William Fischel, *The Homevoter Hypothesis*, Chapter 3
   Christian Hilber & Christopher Mayer, “Why Do Households without Children Support Local Public Schools?”
8. **Regional Income Differences II: Effects of Immigration**

Daniel Shoag and Peter Ganong “Why has Regional Income Convergence in the US Declined?”

David Card, “The Impact of the Mariel Boatlift on the Miami Labor Market”


9. **The Basics of Taxation**

Laurence Kotlikoff and Lawrence Summers, “Tax Incidence”

Raj Chetty “Public Economics Lectures: Part 2 Incidence of Taxation”


Jonathan Gruber, *Public Finance and Public Policy*, chapter 2

10. **Incidence with Mobility & Capitalization**

Raj Chetty “Public Economics Lectures: Part 2 Incidence of Taxation” continued


Austin Goolsbee, "In A World Without Borders: The Impact of Taxes on Internet Commerce"

11. **Spillovers and the Limits of Voting**

Jonathan Gruber, *Public Finance and Public Policy*, chapter 9

Groen and White “In-State versus Out-of-State Students: The Divergence of Interests between Public Universities and State Governments”

12. **Competition between Governments**

Daniel Shoag and Stan Veuger “Shops in the City”

Tiebout “A Pure Theory of Local Expenditures”

13. **Central and local government interactions**

Jim Poterba, "State Responses to Fiscal Crises: The Effects of Budgetary Institutions and Politics"
Robert Novy-Marx and Josh Rauh, “Public Pension Promises: How Big Are They and What Are They Worth?”


14. **Equalization II: School Finance**

David Alouy, “The Unequal Geographic Burden of Federal Taxation”

Sheila Murray, William Evans and Robert Schwab, “Education-Finance Reform and the Distribution of Education Resources”

William Fischel, *The Homevoter Hypothesis*, Chapter 6

15. **Place-Making Policies**

Edward Glaeser & Josh Gottlieb, “The Economics of Place-Making Policies”

Ed Glaeser, *The Triumph of the City*, Chapter 2

16. **Place-Making Policies II**

Michael Greenstone and Adam Looney, “An Economic Strategy to Renew American Communities”

17. **Tax Incentives**

Matias Busso and Patrick Kline, “Do Local Economic Development Programs Work? Evidence from the Federal Empowerment Zone Program”

18. **Minimum Wages**

Dube, Lester, and Reich "Minimum Wage Effects across State Borders: Estimates Using Contiguous Counties”

19. **Regulation**

Thomas Holmes, "The Effect of State Policies on the Location of Industry: Evidence from State Borders”

Michael Greenstone, “The Impacts of Environmental Regulations on Industrial Activity”
20. Million Dollar Plants & Stadiums
Michael Greenstone, “Bidding for Industrial Plants: Does Winning a Million Dollar Plant Increase Welfare?”

21. Fiscal Multipliers I: Open Economy IS-LM

22. Fiscal Multipliers I: Empirical Evidence

23. The Euro
Paul Krugman, “Lessons of Massachusetts for EMU”
Lars Jonung and Eoin Drea, “The Euro: It can't happen. It's a bad idea. It won't last. US economists on the EMU, 1989-2002”
Gary Richardson & William Troost, “Monetary Intervention Mitigated Banking Panics”

24. The Great Recession
Atif Mian and Amir Sufi, “Household Leverage and the Recession of 2007 to 2009”