

State&Local Public Finance Essay Assignment`

Spring, 20011

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The essence of this assignment is for you to demonstrate mastery of our course material by discussing an unanswered question using a specific locally provided public good (lpg). You will write a paper that outlines a research project on your specific lpg. Your paper will be due Tues, 5/3. Before then, however, you will hand in three intermediate papers as described below. I will give you feedback on your intermediate papers, your grade on this project will be primarily based on the final paper due 5/3. (I may take into account your intermediate progress, however).

Part I: Due Thurs. 2/24: General introduction to your question, the publicly provided good you will use as your example, the institutional arrangements surrounding the provision of your good, and its financing.

Pick a locally provided public good about which you are interested in developing some expertise (this should be a good or service provided by a sub-national government). You should pose a research question you want to answer. To do so, you will also need to provide substantial background on your good. Why is your good publicly provided? Is your good a 'public good?' You may also want to provide some information about the distributional consequences (horizontal equity, or the existence of private substitutes).

Part II: Due Thurs, 3/24. Describe the production function in as much detail as possible.

Build a model that describes the production and usage of your publicly provided good. Include in your model the purchased inputs, both by governments and individuals (if appropriate), as well as the environmental factors that might affect the level of services received by residents. In your production function, consider whether all residents receive the identical quantity of the good, or if it varies. Consider in your model whether the prices of purchased inputs are set by markets, or by government. Are these prices likely to be supply prices? Describe how your model illustrates the congestion properties, or whatever it is that makes your good publicly provided. Describe how it is possible to estimate your model. That is, what type of data would you need, what would provide the source of variation, and whether all the data you might need is available. A terrific step would be to speculate on what the parameters in your production model might be, if you did estimate them.

Part III: Due Thurs, 4/21. Describe the governmental provision of your good (or more generally, the demand side).

Present a model that shows how the government selects the level of provision of your good. Feel free to propose several models, for example to test whether the median voter or another process determines the expenditure level. Include in your model how to assess whether your good is provided at the socially optimal level. It may be interesting to separately discuss technical efficiency and allocative efficiency. If it is important for your good, also consider how the provision level varies across individuals, and whether such variation is optimal.

Final Paper: Due Tues, 5/3.

Put the three parts of your paper together, and integrate it with your research question. Will you use the production, or demand side, to answer your question? Most models are simultaneous (or at least IV), discuss how both production and demand are integrated. Include an introduction to your good and the interesting institutional features Present the type of data and variation that could be used to estimate your models. Discuss the interesting implications of the estimates you would obtain.