Course Description

This class is intended as an advanced course where the students use models from the literature on regional (intra-country) data. The focus is on the interaction between macroeconomics and governments, which includes macro models as well as such related areas as public finance, political economy, and public choice. The course is new and the format “experimental”- think of it as a seminar. We will read articles of interest and/or background articles, but will also give a few lectures. We will discuss the precise requirements in the first class but we imagine each student making one or two presentations (a mock referee report is also an option) and an empirical paper proposal. The later requirement is likely non-negotiable and will be the main requirement. We imagine students will present an outline of their paper and by the end of the class present their full proposal. More often than not the paper can be a replication of an existing paper with extensions (you may want to try and show that existing results are shaky and not robust to changes in samples/specifications and assumptions). Alternatively, we may post some data and have you design a project with the provided data. You will have access to data and computer programs (in GAUSS or STATA) used in our previous research although if feasible (in reasonable time) you should update the data. Data for U.S. states are readily available from the Bureau of Economic Analysis and the Census of Governments. (Note that the BEA has recently put out GDP numbers for big cities, you are encouraged to try to use those.) The instructors will cover background material needed. (For example, we will need to give you an introduction to panel data econometrics).

I. The Goal of Government

A. Collective Goods


B. Market Failures

1. Externalities


2. Information and Uncertainty


3. Decreasing Cost Industries (take I-O)
4. (Re)Distribution
   Externalities vs. Social Welfare
   J. Rawls, Theory of Justice, pp. 60-108.

II. Public Choice Mechanisms

   T. Borcherding and R. Deacon, "The Demand for the Services of Non-Federal Governments," AER, Dec 1972
   E. Gramlich and D. Rubinfeld, "Micro Estimates of Public Spending Demand Functions and Test of the Tiebout and Median Voter Hypothesis," JPE, June, 1982

III. The Effects of Federalism as an Institution

   Barankay and Lockwood, “Decentralization and the Productive Efficiency of Swiss Cantons,” JPubE, June, 07

A. Other Governmental Institutions


IV. Political Economy: Endogenous Borders


V. The Role of Government Debt

Poterba, J. “State Response to Fiscal Crises: The Effect of Budgetary Insitutions and Politics,” JPE, 1994
Schaltegger and Torgler, “Government Accountability and Fiscal Discipline,” JPubE, Feb, 07

VI. Interstate and intercountry risk sharing

All the data from the work below (Sorensen) are available with programs (in GAUSS, but you can use STATA , or whatever, if you want):


VII. Determinants of Risk Sharing


VIII. Implications of Financial Integration and Risk Sharing


IX. Consumption (regional level)


“House Prices and Risk Sharing” Under revision for *Journal of Monetary Economics*

X. Intranational Fiscal Policy (rich dataset)