

ECON 7395: Intranational Macroeconomics

Profs. Steven Craig and Bent E. Sorensen

Spring, 2010

WEB-page: to come (the class WEB-page will be accessible from www.uh.edu/~bsorensen)

Hours: By appointment, and just drop by.

Requirements: Practice estimation of a model, or a research proposal, and other assessments.

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

P. Samuelson, "The Pure Theory of Public Expenditure," REStat, Nov 1954

_____, "The Diagrammatic Exposition of the Theory of Public Expenditures," REStat, Nov 1955

S. Craig, "The Impact of Congestion on Local Public Good Production," JPubE, 32, April, 1987.

B. Market Failures

1. Externalities

J. Kohlhase, "Toxic Waste Sites and Property Values," JUE, July, 1991

2. Information and Uncertainty

G. Akerlof, "The Market for Lemons: Qualitative Uncertainty and Market Mechanisms," QJE, Aug 1970

- M. Rothschild and J. Stiglitz, "Equilibrium in Competitive Insurance Markets: An Essay on the Economics of Imperfect Information," QJE, Nov 1976
3. Decreasing Cost Industries (take I-O)
 4. (Re)Distribution
 - Externalities vs. Social Welfare
 - J. Rawls, Theory of Justice, pp. 60-108.
 - J. Behrman and S. Craig, "The Distribution of Public Services: An Exploration of Local Government Preferences," AER, March, 1987

II. Public Choice Mechanisms

- T. Bergstrom and R. Goodman, "Private Demands for Public Goods," AER, June 1973
- T. Borchering and R. Deacon, "The Demand for the Services of Non-Federal Governments," AER, Dec 1972
- C. Tiebout, "A Pure Theory of Local Expenditures," JPE, Oct, 1956
- 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

- W. Oates, Fiscal Federalism, 1972.
- W. Oates, "Fiscal Federalism," JEL, Sept, 99, p. 1120.
- S. Craig and R. Inman, "Federal Aid and Public Education: An Empirical Look at the New Fiscal Federalism," REStat, Nov, 1982
- S. Winer, "Some Evidence on the Effect of the Separation of Spending and Taxing Decisions," JPE, Feb 1983
- C. Holsey, "Price and Income Distortions Under Separate Spending and Taxing Decisions," JPubE, 1992
- P. Pereira, "A Politico-Economic Approach to Intergovernmental Lump-Sum Grants," PC, July, 1996
- Jing and Zou, "How Does Fiscal Decentralization Affect Government Size?" JUE, Sept, 02.
- R. Fisman and R. Gatti, "Decentralization and Corruption," PC, Oct, 02, p. 25.
- Baicker, Katherine, "Extensive or Intensive Generosity? The Price and Income Effects of Federal Grants," REStat, May, 2005, p. 371
- Arzaghi M. and Henderson J.V., "Why countries are fiscally decentralizing," p. 1157, JPubE, July, 2005
- Barankay and Lockwood, "Decentralization and the Productive Efficiency of Swiss Cantons," JPubE, June, 07
- Robert P. Inman; Daniel L. Rubinfeld, "Rethinking Federalism," Journal of Economic Perspectives Vol. 11, No. 4 (Autumn, 1997), pp. 43-64
- P. Cashel-Cordo and S. Craig, "The Public Sector Impact of International Resource Transfers," Journal of Development Economics, 32, February, 1990, pp. 17-42.

A. Other Governmental Institutions

Case, Ann, Harvey Rosen, and James Hines, "Budget Spillovers and Fiscal Policy Interdependence," JPubE, 1993, pp285-307.

Glaeser, Ed, David Laibson, J. Scheinkman, and Christine Soutter, "Measuring Trust," QJE, Aug, 2000, pp. 811-846.

IV. Political Economy: Endogenous Borders

Alesina and Spalare, "On the Size and Number of Nations", QJE, 1997.

Alesina, Baqir, and Hoxby, "Political Jurisdictions in Heterogenous Communities", QJE 2003.

Brasington, "Joint Provision of Public Goods: The Consolidation of School Districts", JPubE, 1999.

Knight, Brian and Nora Gordon, "A Spatial Merger Estimator with an Application to School District Consolidation," *Journal of Public Economics*, 93, June 2009, pp 752-765

V. The Role of Government Debt

Poterba, James, "Balanced Budget Rules and Fiscal Policy: Evidence from the States," NTJ, Sept, 1995, p. 329.

Poterba, J, "Budget Rules and Fiscal Policy in US States," AER, 1996

Poterba, J. "State Response to Fiscal Crises: The Effect of Budgetary Insitutions and Politics," JPE, 1994

Robert Inman and H. Bohm, "Balanced Budget Rules and Public Deficits: Evidence from the US States," in Carnegie-Rochester Conference Series on Public Policy, 1996, Elsevier.

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):

"Channels of Interstate Risk Sharing: United States 1963-1990." *Quarterly Journal of Economics*, Vol. 111, November 1996, 1081-1110.

"Producer Prices versus Consumer Prices in the Measurement of Risk Sharing." *Applied Economics Quarterly*, Vol. 53, January 2007, 3-17.

"International Risk Sharing and European Monetary Unification." *Journal of International Economics*, Vol. 45, August 1998, 211-38.

“Federal Insurance for US States: An Empirical Investigation.” In A. Razin and E. Sadka, eds. *Globalization: Public Economics Policy Perspectives*, Cambridge University Press 1999, New York.

“Is Risk Sharing in the United States a Regional Phenomenon?” Federal Reserve Bank of Kansas City Review Second Quarter 2000.

VII. Determinants of Risk Sharing

“Financial Integration within EU Countries: The Role of Institutions, Confidence, and Trust.” *NBER International Seminar on Macroeconomics 2007*.

“U.S. Banking Deregulation, Small Businesses, and Interstate Insurance of Personal Income.” *Journal of Finance*, November 2007.

VIII. Implications of Financial Integration and Risk Sharing

“Risk Sharing and Industrial Specialization: Regional and International Evidence.” *American Economic Review*, Vol. 93, June 2003, 903-18.

“Economic Integration, Industrial Specialization, and the Asymmetry of Macroeconomic Fluctuations.” *Journal of International Economics*, Vol. 55, September 2001, 107-137.

IX. Consumption (regional level)

“Consumption and Aggregate Constraints: Evidence from US States and Canadian Provinces.” *Journal of Political Economy*, Vol. 110, June 2002, 634-645.

“Intranational and International Credit Market Integration: Evidence from Regional Income and Consumption Patterns.” In G. Hess and E. van Wincoop, eds. *Intranational and International Macroeconomics*, Cambridge University Press 2000, New York.

“What Can Explain Excess Smoothness and Sensitivity of State-Level Consumption?” *Review of Economics & Statistics* January 2008.

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

X. Intranational Fiscal Policy (rich dataset)

“Output Fluctuations and Fiscal Policy: U.S. State and Local Governments 1978-1994.” *European Economic Review*, Vol. 45, June 2001, 1271-1310.

“Is State Fiscal Policy Asymmetric Over the Business Cycle?” Federal Reserve Bank of Kansas
City Review Third Quarter 2001.