

End-of-chapter Questions

Chapter 23: Grants-in-Aid

1. What is a grant-in-aid? Are grants-in-aid an important fiscal device in the U.S.?
2.
 - a. What are the main U.S. federal grant-in-aid programs?
 - b. Is their motivation mostly efficiency-based or equity-based?
3.
 - a. What is the role of grants-in-aid in the standard mainstream model of federalism?
 - b. Does the mainstream model do well in explaining actual grant-in-aid programs in the U.S.?
4. What is fiscal equalization and how does Julian LeGrand's model of grants-in-aid propose to achieve it?
5. Why do William Baumol and Wallace Oates believe that U.S. state and local governments are subject to a cost disease relative to the production of private goods?
6. If state and local governments are subject to cost disease, how difficult will it be for them to raise the revenues to finance their publicly provided goods over time if:
 - a. the public wants a constant amount of state and local goods over time; or
 - b. the public wants a constant proportion of state and local goods to private goods over time.
7. In the Baumol/Oates cost disease model, what two factors underlie the call for federal grants-in-aid to state and local governments? Explain.
8. Why can only matching grants-in-aid be open-ended grants?
9.
 - a. Under what conditions are categorical closed-ended grants-in-aid equivalent to unconditional grants-in-aid of the same amount?
 - b. If these conditions apply, does it matter whether the categorical grant-in-aid is a matching or non-matching grant?
10. In a one-person, one-vote democracy in which the preferences for a public good among the citizens are strictly increasing, why is the median voter's preference for the public good decisive under a simple majority voting rule?
11. What assumptions are made in designing the estimating equation for local services based on the median voter model? Are these assumptions realistic? Explain.

12. In the median voter estimating equation for a local service, should the coefficient estimate on per capita grants-in-aid have the same sign and magnitude as the coefficient estimate on median income? Explain.
13.
 - a. What is the flypaper effect regarding grants-in-aid?
 - b. How is it tested in the median voter model of local services?
 - c. Does it appear to be important in the U.S.?
 - d. Why do economists not have a good explanation for the flypaper effect?