

Dissertation Proposal

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Essays on the Provision and Funding of Public Goods.

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10:30am

388 Posner Hall

The first essay studies profiling and affirmative action in the access to gifted programs, a common public good provided by school districts. For decades, colleges and universities have struggled to increase participation of minority and disadvantaged students. Urban school districts confront a parallel challenge; minority and disadvantaged students are underrepresented in selective programs that use merit-based admission. We analyze optimal school district policy and develop an econometric framework providing a united treatment of affirmative action and profiling. Implementing the model for a central-city district, we find profiling by race and income, affirmative action for low-income students, and no affirmative action with respect race. Counterfactual analysis reveals that these policies achieve 80% of African American enrollment that would be could be attained by race-based affirmative action.

The second essay studies a new alternative mean of funding for States and local authorities called Build America Bonds (BAB). BABs were issued by municipalities for twenty months as part of the 2009 fiscal package. Unlike traditional tax-exempt municipals, BABs are taxable to the holder, but the Treasury rebates 35% of the coupon to the issuer. The stated purpose was to provide municipalities access to a more liquid market including foreign, tax-exempt, and tax-deferred investors. We find BABs do not exhibit greater liquidity than traditional municipals. BABs are more underpriced initially, particularly for interdealer trades. BABs also show a substitution from underwriter fees toward more underpricing, suggesting the underpricing is a strategic response to the tax subsidy.

The third essay studies how political parties' choice of public good provision and tax funding affect the risk of default to public debt investors. Past research has largely ignored the effects that politicians and political parties have on the risk of default of state and federal governments. The objective of this paper is to address this important policy question using data from Credit Default Swaps (CDS), a derivative contract designed to protect from risk of default. I use polls and prediction market outcomes to measure the likely outcome of future state and federal elections. The findings of the paper suggest that on average, Republican governors reduce credit spreads by around six basis points, almost half of CDS standard deviation during the period of analysis. Ex-ante, Republican candidates are good news for debt holders.