

# EDUCATION FINANCE RESEARCH CONSORTIUM

---

Center for Policy Research • Rockefeller College • University at Albany • 135 Western Avenue  
Albany, NY 12222 • (518) 442-3862 • edfin@albany.edu • <http://www.albany.edu/edfin>

## ***State Education Aid, Student Performance, and School District Efficiency in New York State***

William Duncombe and John Yinger

(Center for Policy Research, The Maxwell School, Syracuse University)

One of the best-known theorems in public finance is that a matching grant has more of a stimulative effect on public outputs than does an equal-cost lump-sum grant. This theorem is an application of the basic microeconomic principle that a given amount of subsidy will lead to larger behavioral changes if it lowers the relevant price than if it does not. In this report, the authors show that this theorem is not correct under a wide range of circumstances. They also derive more general results that can be used to identify the type of state program that has the largest impact on local government performance. An application of these results to educational aid in New York State indicates that matching grants are more stimulative than equal-cost lump-sum grants in all types of districts in the sense that they have a larger impact on student performance on exams. Although open-ended matching grants are often not popular with legislatures, because their cost implications are not known at budget time, this result suggests they deserve a second look by legislatures interested in boosting student performance. On a cautionary note, the authors find that school district responses to grants limits the effectiveness of matching grants and leads to some circumstances where lump-sum grants might be more effective. They suggest that further research is needed to better understand the complex effects of grants on school district efficiency, and to help design grant and accountability programs that maximize the impact of grants on student performance.