

MICROECONOMIC POLICY ANALYSIS

I. OBJECTIVES

This course continues from PP210A and shares the same general objectives. It is designed to teach you how economic analysis can be brought to bear on public policy issues. The vantage point from which you will bring it to bear is up to you, but the training helps you to form your vision as an analyst, public manager or civic leader. It helps you to understand what is possible, what is practical, and what is desirable. Each of you, in diverse ways, will work to further the public interest. Each of you will work with and around many special interests when you try to effect change. You will rely upon your economics training to help keep your public-interest vision clear and to achieve it.

Specifically, you will learn: (1) *to identify the relevant economic questions* to consider about policy issues that you must confront; (2) *to evaluate analyses* that you will encounter in the policy world for their economic strengths and weaknesses; (3) *to comprehend* and evaluate what professional economists write in the *economic journals* that may bear on issues of concern to you; (4) *to design policy alternatives* with cognizance of their economic consequences; and (5) *to communicate* economic analysis effectively in the policy-making process.

We continue with the same textbooks this semester. I will emphasize the material from the second half of my book **The Microeconomics of Public Policy Analysis (MPPA**, Princeton Univ. Press, 2002). The readings from Walter Nicholson & Christopher Snyder (**Microeconomic Theory**, 11th ed., 10th ed. shown in green) are optional, intended both to supplement the theory in MPPA as well as to provide a second way of explaining many concepts. In addition, there are a small number of required articles that supplement the text materials (most available online through the UC MELVYL system, others either through the b-space course website or by physical distribution). **You are expected to achieve command over the principles contained in the readings as they may bear on issues of public policy. It is not sufficient simply to learn the principles; you must learn how and when they may be applied to issues of policy. You must learn how to think and analyze using them. You must learn to use them as a way to create improvements.**

To achieve this, many principles are developed in the context of particular policy issues that I hope are of interest to you for their own sake. The issues we will discuss are identified on the reading list. The issues are sequenced to allow systematic development of the relationships between principles and to allow repetition of principles in different applications.

II. CLASS MEETINGS

Classes meet three (3) times per week for 1-1/2 hours each. The Monday and Wednesday classes will be used to introduce new material that is required of all students. On Friday, generally the class will review the principles of theory introduced in earlier classes, as well as questions about the application of these principles and problem sets.

III. ASSIGNMENTS

A. Reading

Assignments are to be read before coming to class. Don't let yourself fall behind. If you feel there is too much reading, yell.

B. Problem Sets

Problem sets will be assigned approximately every 2-3 weeks. Students are not expected to spend more than three hours on any problem set; do what you can within that time frame. While you may discuss the problems before you attempt to do them, please turn in your assignment before actually finding out how others did it. I want to know what each person can do on his/her own and to be able to judge progress over time.

C. Written Exercises

During the semester, there will be one memo assignment. It will be given on February 19th and due February 26th, in connection with a case assignment. The assignment will require you to apply economic principles, given limited data, to a policy problem. It also requires you to communicate the results of your work appropriately as a policy analyst.

IV. GRADING

To receive at least a passing grade, all problem sets must be turned in on time and they must show a satisfactory level of work. Other than this, they are not counted in grading. They will be corrected and scored for your benefit.

The memo assignment due February 26 will count the same as an exam in determining the semester grade. A mid-term examination will be given on March 17. There will be a final exam tentatively scheduled for May 12, 9AM-12 in Room 250 GSPP, and it will count the same as the memo assignment and the midterm in determining the semester grade.

Lectures Mon. & Wed. Sect. 1 8:30-10:00 Rm 250 GSPP; Sect. 2 10:00-11:30 Rm 250 GSPP

Review Fri. S101 9-10:30 Rm 250 GSPP; S102 10:30-12 Rm 250 GSPP

READING ASSIGNMENTS

I. Efficiency January 22, 24

MPPA, Chapter 12, pp. 461-471 (through "Efficiency in an Economy with Production")
Nicholson, Chapter 13, pp.457-465 (explaining the production-possibilities frontier)
Nicholson, Chapter 13, 442-449 (Edgeworth Box Diagram-Example 13.1), 466-471, 476-481.

II. Achieving Efficiency Through Pricing in Perfectly Competitive, Trouble—Free Markets

A. Price Formation in Competitive Product Markets January 27. 29

MPPA, Chapter 10, esp. pp. 373-381, 397-414.
Nicholson, Chapter 11, pp. 371-383.
MPPA, Chapter 12, pp. 471-478 ("Competitive Equilibrium in One Industry")
Nicholson, Part V Intro, Chapter 12, pp. 409-438.
Nicholson, Part IV Intro, Chapter 13, pp. 441-442, Chapter 12

B. Pricing in Competitive Factor Markets February 3

Nicholson, Chapter 11 on input demand, pp. 389-395.

C. Capital Markets (with Divestment Discussion) February 5

MPPA, review Chapter 8, pp. 278-296.
MPPA, Chapter 19, pp. 696-700 ("Perfectly Competitive...Capital Markets")
Nicholson, Chapter 17, pp. 607-621 (Chapter 17, pp. 595-608).
Discussion: Should the University divest large energy companies from its investment portfolio? See b-space course website, short "Divestment Readings" under "Resources".

D. The Pareto Optimality of Competitive Markets February 10

MPPA, Chapter 12, pp. 478-481 ("The Twin Theorems...")
Nicholson, Chapter 13, pp. 465-481 (Chapter 13, 471-475).

- E. General Competitive Analysis:
Tax Efficiency and Incidence Feb. 12, 19

MPPA, Chapter 12, pp. 481-506 ("General Competitive Analysis..." to end)
Nicholson, Chapter 13, pp. 485-489, 495-496 ([Chapter 13, 449-465, 487-488](#)).

****MEMO ASSIGNMENT (GIVEN FEBRUARY 19) DUE****

February 26

III. Achieving Equity in Competitive Markets

- A. The Distribution of Income February 24

Piketty, Thomas and Emmanuel Saez, "How Progressive is the U.S. Federal Tax System? A Historical and International Perspective," **The Journal of Economic Perspectives**, 21, No. 1, Winter 2007, pp. 3-24 (available online through UC MELVYL)

Smeeding, Timothy, "Public Policy, Economic Inequality, and Poverty: The United States in Comparative Perspective," **Social Science Quarterly**, 86, s1, December 2005, pp. 955-983 (available online through Blackwell-Synergy)

- B. Specific Equity: Housing, Military Service and Gasoline
1. Apartment Rent Control (and San Francisco evictions) Feb. 26, March 3
MPPA, Chapter 13
"Housing Crisis Taking Toll with No-Fault Evictions", San Francisco Chronicle, Nov. 16, 2013 (available on b-space, "resources," "rent control and eviction")
 2. Military Service and Gasoline Rationing March 5, 10

MPPA, Chapter 14

IV. Efficiency Problems and Alternative Institutional Responses

- A. Market and Government Allocative Difficulties March 12

MPPA, Chapter 15

MPPA, Chapter 11, pp. 429-432 ("Public Bureaus and Enterprises")

Nicholson, [Chapter 13, pp. 475-476](#), [Chapter 19, pp. 687-689](#).

****MID-TERM EXAMINATION****

March 17

- B. Public Goods and Public Television March 19, 31
MPPA, Chapter 16

David Brookshire and Don Coursey, "Measuring the Value of a Public Good: An Empirical Comparison of Elicitation Procedures," **The American Economic Review**, 77, No. 4, Sept. 1987, pp. 554—566 (available online through JSTOR).

Nicholson, Chapter 19, pp. 694-710 (Chapter 19, pp. 679-687, 690-693).

No classes Spring Break

March 24 and March 26

April 2 is a random Wednesday left open for a session in conjunction with “Stop the Clock Week.”
Schedule to be adjusted as necessary.

C. Externalities, with Application to Air Pollution

April 7, 9

MPPA, Chapter 17

Schmalensee, R. and R. Stavins, “The SO₂ Allowance Trading System: The Ironic History of a Grand Policy Experiment,” **The Journal of Economic Perspectives**, 27, No. 1, Winter 2013, pp. 103-122 (available on b-space course website under “Resources”)

Friedman, Lee S. “Should California Include Motor Vehicle Fuel Emissions in a Greenhouse Gas Cap-and-Trade Program?” **Journal of Comparative Policy Analysis**, 12, No. 3, June 2010, pp. 215-248 (available online through Taylor & Francis Journals Complete).

Nicholson, Chapter 19, pp. 685-694 (Chapter 19, pp. 670-679, 694).

D. Market Structure Problems

1. Oligopoly, Application to 2001 California Electricity Crisis April 14

MPPA, Chapter 18, pp. 660-671 (through "Oligopoly...")

Nicholson, Chapter 15 (Chapter 15)

2. Natural Monopoly, with Application
to Public Transit and CATV

April 16, 21

MPPA, Chapter 11, pp. 432-457 ("Empirical Predictions..." to end)

MPPA, Chapter 18, pp. 671-695 ("Rate-of Return..." to end)

Nicholson, Chapter 14 (Chapter 14)

3. Imperfect Factor Markets, Labor and
Higher Education Finance (proposal to replace UC fees)

April 23

MPPA, Chapter 19, pp. 700-707 ("The Social Rate..." and "Education...")

MPPA, Chapter 20, pp. 724-734 ("Asymmetric Information")

Nicholson, Chapter 16 (Chapter 16)

Discussion: UC Fees and Income-Contingent Loans (see San Francisco Chronicle article on b-space course website under “Resources”, “Higher Education Finance” folder)

4. Imperfect Factor Markets and Capital Investments (Exhaustible Resources, Long-Term Discounting) April 28

MPPA, Chapter 19, pp. 707-723 ("The Allocation..." to end)
 Nicholson, Chapter 17, pp. 621-626 ([Chapter 17, pp. 608-614](#)).
 "Technical Support Document: Social Cost of Carbon for Regulatory Impact Analysis—Under Executive Order 12866," Interagency Working Group on Social Cost of Carbon, United States Government, May 2013 (available through b-space course website under "Resources").

E. Imperfect Information and Decision-Making

Trust and Non-Profit Day Care April 30

MPPA, Chapter 11, pp. 417-429 ("Nonprofit Organizations...")
MPPA, Chapter 20, pp. 734-751 ("Nonprofit Organizations..." to end)

Review Week May 6-10, no lectures May 6 or May 8.

****FINAL EXAM****

9AM-12 Room 250 GSPP

tentative May 12

Friday Schedule

Jan.	24	*Lecture on Efficiency
Jan.	31	Review
Feb.	7	Review & PS#1
Feb.	14	Review
Feb.	21	Review & PS#2
Feb.	28	Review
March	7	Review
March	14	Review
March	21	Review & PS#3
March	28	Spring Break
April	4	Review
April	11	Review & PS#4
April	18	Review
April	25	Review & PS#5
May	2	Review