MICROECONOMIC ORGANIZATION AND POLICY ANALYSIS

I. OBJECTIVES

This seminar is designed to enhance skills in conducting public policy analyses of alternative institutional structures based on microeconomic theories. Institutional structure refers generally to the framework, rules, or governing mechanisms under which economic transactions take place. It includes the applicable laws of property and contract, regulations and regulatory bodies, rules affecting government or nonprofit participation as a producer or consumer, and the cultural norms of the society. The analyses are typically of specific sectoral problems within a given economy, like alternative state regulatory methods for the telecommunications industry, or whether or not a school district should contract out for educational services to its students, or whether a water pollution tax should replace technical standards.

The readings stimulate thought along a number of dimensions important to the evaluation of institutional alternatives that arise in actual policy decisions. In the context of specific policy cases, we will examine analyses involving collective demand for public goods, bounded consumer and firm rationality, non-market organizations (bureaus, regulatory agencies, and non-profits), and technical progress in the public sector. Each student will undertake a significant analysis of institutional alternatives in a policy area of his or her choice.

II. REQUIREMENTS

There are two course requirements:

A. Satisfactory class participation.
B. One written assignment.

Satisfactory class participation requires regular attendance, reading of assigned materials in advance of class discussion, and occasional responsibility for leading class discussion.

Online access to reading assignments may require UC identification. Those readings listed without a specific address can be accessed through the UC MELVYL system. Usually the easiest way to find them is to search by journal title and identify the online source that covers the year of the article. A few readings are noted as available on our course b-space website.

The written assignment is to design and evaluate at least two institutional alternatives for organizing the resource allocation process in any policy area of your choice. One of the alternatives considered should be the status quo. One of the evaluative criteria should be economic efficiency.
You should submit a one-page description of your topic for approval by September 23, or sooner if possible. The page should (a) include one paragraph that states the central problem you wish to consider and at least two policy alternatives. You should also (b) describe data and information sources to serve as the basis for your analysis, and (c) include a beginning bibliography of academic literature that you expect to be helpful in guiding your analysis.

Each student will choose some class time to discuss the topic and present her or his work in progress. If class size permits, each student will do this twice: once early in the semester, to discuss the substantive problem and analytic approaches to it, and once later on, to discuss the student’s completed first-cut of the analysis (this need not be in written form). The feedback from the later session should be used to revise the analysis before submitting the final version.

The written assignment is due on or before December 9. As a rough guideline to length, I would expect most papers to be 15-20 pages (double-spaced). Primary emphasis in grading will be on the treatment of efficiency consequences (although this need not be the primary motivation for the policy). The paper can be a complete policy analysis; it can also be thought of as one piece of a planned larger analysis. I am looking primarily for you to demonstrate substantial insight about the relationship between institutional structure and efficiency.
READING LIST AND SCHEDULE

I. INTRODUCTION

WEEK 1: September 9 Organizing for Progress: Framework with Education Example


WEEK 2: September 16 Incentives and Privatization as Policies (Applications: Infrastructure, Education, Medical Care)


Hotz-Eakin, Douglas and Gruber, Jonathan, Point-Counterpoint on “What Can Massachusetts Teach Us About National Health Insurance Reform?” JPAM, 30(1), Winter 2010, pp. 177-195 (available through MELVYL Wiley Online Library, read each author’s initial statement and their responses to each other).
II. COLLECTIVE MECHANISMS OF DEMAND ARTICULATION

A. Collective Purchase Mechanisms (“Full” Delegation of Individual Consumer Authority)

WEEK 3: September 23 (Applications: Public Television, Governmental Data Collection, Environmental Quality, Legal Research for Legal Aid)


WEEK 4: September 30 (Applications: Retirement Policy, Energy Policy, Health Policy)

Regulation to Improve Consumer Choices (Information and Price)


**WEEK 5: October 7 (Applications: Occupational Safety and Health, Air Quality, Urban Congestion)**

*Regulation to Improve Quality*


**WEEK 6: October 14**

**WEEK 7: October 21**

Student proposals
WEEK 8: October 28  (Applications: Electricity, Telecommunications, Public Transit)

Rate of Return Regulation, Incentive Contracting, and Deregulation


III. INSTITUTIONAL CHOICES OF SUPPLY

A. Government, Nonprofit, and Profit-Seeking Enterprises

WEEK 9: November 4 (Applications: Non-Profit Hospitals, Schools, Public Liquor Retailing)


Sanders, S., “The Common Sense of the Nonprofit Hospital Tax-Exemption: A Policy Analysis,” JPAM, 14, No. 3, Summer 1995, pp. 446-466 (available online through MELVYL via Periodicals Archive Online or JSTOR).


Seim, Katja and Joel Waldfogel, “Public Monopoly and Economic Efficiency: Evidence from the Pennsylvania Liquor Control Board’s Entry Decisions,” AER April 2013, 103, No. 2, pp. 831-862 (available online through MELVYL by the “local holdings available” option under the journal listing).

WEEK 10: November 11 No Class, University Holiday

B. Dynamic Considerations: Innovating, Adapting

WEEK 11 November 18 (Applications: Energy, Education, Criminal Justice)


Berman, P. and B. Nelson, "Replication: Adapt or Fail", in A. Altshuler and R. Behn, Innovation..., pp. 319-331 (available on course website).

WEEK 12: November 25 Student Presentations

WEEK 13: December 2 Student Presentations

WEEK 14: December 9 No Class, Papers Due