ECON 221/PPOL 204 (Sections 80 & 81)
ECONOMICS IN POLICY ANALYSIS
Spring, 2007

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Required Book


Recommended Books

Intermediate Microeconomic Theory textbook (such as the one you used in Econ 217 or its equivalent)

Note on Readings:

Friedman (abbreviated as "F" in the assignments) is the primary textbook for the course and you will read almost all of it. You are not responsible for the sections marked “S” (supplementary), “O” (optional, with calculus), or “appendix” in the assigned chapters, but students with good math skills may find that the optional sections provide a more precise and compact exposition than the main text material. Friedman reviews and extends the microeconomic theory concepts that you learned in Econ 217 and provides examples of how the theory is used for policy analysis. It is useful to keep your Econ 217 textbook available throughout this course. If you find the Friedman explanation of a concept too brief or confusing, try to find the same concept in your microtheory textbook and see if that explanation helps. In past versions of this course, I have made the Weimer and Vining and the Watts books required rather than recommended. I have switched them to recommended because I do not use the entire books and they play a subordinate role compared to the Friedman textbook, but you should not ignore them. Weimer and Vining (abbreviated as WV in the assignments) is a very useful supplement that emphasizes the use of economics in policy analysis. You will probably also see the Weimer and Vining book in other courses in the MPP program. Many students find the Weimer and Vining explanations clearer than the Friedman explanation of the same topic. However, the Weimer and Vining book does not provide the level of detail needed for this course and therefore I can’t use it as a substitute for Friedman. You may find it useful to read the Weimer and Vining sections as an introduction to the more detailed treatment in Friedman. The Watts book consists of short excerpts from literary works that utilize economic concepts without using the technical economic language. I think those with a humanities background or those who read a wide range of literature for recreation will find the Watts book particularly interesting and valuable in making the
translation between literary and economic categories. A number of short selections from the
Watts book are included on the syllabus as a way to add some perspective to the more formal
economics material and I encourage you to read additional material from that book in order
to broaden your understanding of the economic concepts.

Required readings that are not included in the textbook will be made available
through Blackboard. I will also use Blackboard to communicate with the class. Each student
must have a gwu.edu e-mail address because Blackboard only recognizes those addresses. If
you routinely use a non-GW e-mail account, you can set your GW account to forward mail to
your preferred account. However, be aware that AOL and perhaps other providers
occasionally reject mail from the gwu.edu domain; thus you should check your GW account
regularly to be sure that you are not missing important information.

Course Content and Objectives

This course is designed to develop your ability to use economic concepts to analyze
and evaluate the effects of public policy. Students in Economics 221/PPOL 204 should
have completed either Economics 217 or a comparable course in intermediate
microeconomic theory. Econ 221/PPOL 204 is not a first course in microeconomic
theory. This course will review and further develop concepts that you have already
encountered in your earlier microeconomics course. It is rare for students to be able to
fully utilize and apply basic microeconomics to policy problems after their first course in
microeconomic theory and therefore we review and expand on concepts introduced in
Econ 217 in this course.

Course Requirements and Grading

I am trying to develop two distinct types of skill in this course: (1) skill in using
the standard economic tools to derive precise answers to clearly defined problems; (2)
skill in applying economic reasoning to illuminate poorly defined or complex policy
problems, including an understanding of alternatives to the standard economic approach.
The development of both skills requires extensive practice. The first skill will be
developed through problems that require you to work out specific answers to precisely
defined problems. The second skill requires analysis and synthesis of diffuse and
sometimes contradictory material and is best developed and evaluated through essays. I
will assign brief essays on the readings along with specific problems that have a single
correct answer at various intervals throughout the course. The essays and problems will
not be collected or graded, but you should take them seriously. I will distribute answer
sheets to the problems so that you may check your answers. I will also provide feedback
on the essays if requested. Students who ignore the problem sets or merely read through
the problems and answers after the answers are distributed are unlikely to master the
material in the course or to do well on the exams. I encourage you to work together in
groups to develop answers to the problems as if they counted for a major portion of your
grade.

Your ability to derive precise answers to clearly defined problems will be tested
by an in-class mid-term exam (scheduled for the week before spring break) and a take-
home final exam that will contain problems similar to the questions on the problem sets.
The final exam will be open book, but must be completed individually without collaboration with others. The final exam will be due one week after the final class.

Your ability to apply economic reasoning to illuminate complex policy problems will be tested by the preparation of a paper. The paper should be approximately ten pages long (double spaced, 12 point type) and is due at the last class meeting. See the separate paper description for more details on my expectations regarding the paper.

Course grades will be composed by weighting the mid-term exam at 20%, the final exam at 40%, and the paper at 40%.

This class will be a mixture of lecture and discussion. It is important that you attend all classes, arrive on time, and read the assigned material before class so that you may contribute your insights to the class discussion and learn from the insights of other students. If you must miss a class, you should send me an email in advance of the class to let me know that you will be absent. You are, of course, responsible for following GW’s Code of Academic Integrity and all other relevant policies and regulations of the university and CCAS. Please note that the CCAS policy regarding the grade of incomplete is quite restrictive and that consequently I only assign a grade of “I” in exceptional circumstances.

COURSE OUTLINE

This class is scheduled for the standard 14 weeks of class. There are no holidays to complicate the schedule. We will meet eight consecutive times, then skip the week beginning March 11 (GW Spring Break) and meet six more consecutive times. The schedule below is for both sections of the course and therefore the dates are listed as two days with the first day for the Tuesday afternoon section (80) and the second day for the Wednesday night section (81). The schedule below is my current plan for the course. I may modify the dates or assigned readings as the course proceeds.

1. Jan 16/17 – Introduction
   F, Chapters 1, 2.
   Recommended: WV, Chapters 1, 2, 3.

2. Jan 23/24 – Policy decisions and economic results

3. Jan 30/31 - Consumer choice
4. Feb. 6/7 – Applications of consumer choice theory
   F, Chapter 4
   F, pp. 135-145 (government grants)
   F, pp. 179-192 (consumer surplus)

5. Feb. 13/14 – Production, costs, and firm choices
   F, Chapters 9, 10 [This is a large amount of material, but most of it should be review. Be sure you understand production functions, cost minimization requirements, types of costs including private and social opportunity costs, marginal revenue, competitive and monopoly profit maximizing conditions, and price discrimination. You may find it useful to review those topics from your Econ 217 notes and textbook.]

6. Feb. 20/21 - Efficiency of market equilibrium and taxation
   F, Chapter 12 [pp. 486-494 on taxes in general equilibrium are optional]
   Recommended: WV, Chapter 4
   [Begin discussion of time and index numbers of time available.]

7. Feb. 27/28 – Time and index numbers
   F, Chapter 8

8. March 6/7 – Mid-term exam

March 12-16 – GW Spring Break – no class

9. March 20/21 - Asymmetric Information and Moral Hazard
   F, Chapter 7.
   F, Chapter 20.
   [Akerlof's article is a classic and mostly non-technical. You may skip over sections II.B and II.C if you find the math difficult.]
   Joseph Stiglitz, "Information and the Change in the Paradigm in Economics" AER June 2002 (Nobel lecture).
   Recommended: Watts, pp. 167-169 (Sinclair).

10. March 27/28 – Auctions and Games
    [reading material to be assigned]
11. April 3/4 - Public goods
   F, Chapter 15 and 16
   Recommended: Watts, pp. 152-154 (Krakauer & Roy).
   Optional: Mancur Olson, The Logic of Collective Action

12. April 10/11 - Externalities
   F, Chapter 17
   Ronald Coase, "The Problem of Social Cost."
   Recommended: Watts, pp. 146-150 (Steinbeck & Rabelais).

13. April 17/18 - Income distribution, power, and equity
   F, pp. 58-68; pp. 124-136
   Discussion of 1996 welfare reforms and EITC.
   Recommended: WV, Chapter 7

14. April 24/25 - Income distribution, power, and equity (continued)
   Review and summary.
   Paper Due
   Take-home Final Exam distributed

Tuesday, May 1 – Take-home final exam due – Section 80 (no class meeting)
Wednesday, May 2 - Take-home final exam due – Section 81 (no class meeting)