ECON 221/PPOL 204
ECONOMICS IN POLICY ANALYSIS
Fall 2001

Instructor: Prof. Joseph Cordes
George Washington Institute of Public Policy

Office: Media and Public Affairs Building
George Washington University
801 21st Street, N.W., Room 623
Washington, D.C. 20052

Phone: 202-994-5826
E-mail: cordes@gwu.edu
Office Hours: By appt.

Required Books


Course Content and Objectives

This course is part of a two semester sequence that is intended to develop the student’s ability to use economic analysis to analyze and evaluate the effects of public policy. Economics 221/PPol 204 focuses on using economic models in policy analysis. Economics 222 focuses on “turning theory into practice” through tools such as benefit-cost, cost-effectiveness, and cost-utility analysis.

Students in Economics 221/PPol 204 should have completed either Economics 217 or a comparable course in microeconomics at the intermediate level. Econ 221 is not a first course in microeconomics, but emphasizes the application of intermediate microeconomic theory to policy analysis. The reading list identifies key concepts that you should know, some of which will be reviewed as needed throughout the semester, but class time will not be set aside for this purpose. It might be helpful to have a good intermediate microeconomics text that you can use to refresh your understanding of the tools of microeconomics.

Course Requirements

The grade in the course will be based on three work products: a set of graded homework assignments (30%), a paper in which you will develop and present an economic analysis of a policy issue chosen by you in consultation with me (30%), and a final examination (40%). Homework assignments along with due dates will be posted on the Prometheus site for the class. Late work will be “taxed” at a rate of 5% of the total points for each day that the assignment is turned in late.
COURSE OUTLINE

I. Introduction and Overview (Lecture 1)

Key micro concepts for review: demand curve, supply curve, elasticity of supply and demand, movements “along” a demand or supply curve vs. “shifts” of an entire demand or supply curve.

Introduction to Microeconomic Policy Analysis
Friedman (F), Chs. 1 and 2
What is Policy Analysis?
Weimer and Vining (WV), Ch. 1 & 2
Role of Economics in Policy Analysis
Rhoades (R), Ch. 1
Levy (L), Introduction and Chs. 1-3.
H. Varian, “What Use is Economic Theory?”
Reviewing Some Basics: Demand and Supply, Elasticity, Opportunity Cost, and Marginalism
P. Travedi, Chs. 2 (Demand/Supply Model) and 4 (Elasticity).
Rhoades, Chs. 2 and 3.

Policy Application

Rent Control
L, Ch. 10.

II. Modeling the Effects of Policy on Consumers and Producers (Lectures 2-6)

Modeling Consumer Choice

Key micro concepts for review: preferences, utility function, budget constraint, indifference curve, marginal rate of substitution, relative price ratio, utility maximization, marginal utility, diminishing marginal utility, income and substitution effects, normal vs. inferior goods.

An Introduction to Modeling
F, Ch. 2
Modeling behavior of Individual Consumers
F, Ch. 2
R. Ch 5 and 6
Defining efficiency and equity
F, Ch. 3
WV, Ch. 4 & 7
Policy Applications

Budget Constraints and Social Programs
   F, Ch. 4;
   L, Ch. 8.

Intergovernmental grants
   F, Ch. 5

Private school vouchers

Charitable giving

Modeling Producer Choice

Key micro concepts for review: “production technology,” production function, iso-cost curve, isoquant, marginal rate of technical substitution, elasticity of substitution, cost-minimization, profit maximization, marginal productivity, diminishing marginal productivity, returns to scale, total, average, and marginal cost, production frontier, production possibilities frontier, opportunity cost

Modeling behavior of individual producers
   F, Ch. 8
   L. Ch. 4.

Resource costs and economic efficiency
   R. Ch. 2

Firm objectives and behavior
   F, Ch. 9
   F, Ch. 9*

Policy Application

Differential Pricing by Producers
   H. Varian, “Differential Pricing and Efficiency,” First Monday

Economic Behavior of Nonprofit Organizations

III. Private Market Failure and Public Policy (Lectures 7-11)

Efficiency of Competitive Markets

Pareto optimality and competitive equilibrium
F, Ch. 10, 13
WV, Ch. 4
L. Chs. 5-8.
R. Chs. 5-8

The compensation principle and relative efficiency
F, Ch. 6

Policy Application

Shifting, Incidence, and Economic Burden of Taxation

Public Goods

Challenges to decentralized provision of collective consumption goods
F, Ch. 14
WV, Ch. 5

Do People Free Ride?
M. Olson, "The Logic of Collective Action," (B&E).

Government Provision of Public Goods
C. Tiebout, “A Pure Theory of Local Expenditures,” (B&E)

Externalities

Property rights and externalities
F, Ch. 15
R. Ch. 4 & 7
WV, Ch. 5

Policy Applications

Social Regulation

Government Subsidy Programs
S. Wallstein, “The R&D Boondoggle,” Regulation, 23(4)

The Information Economy
H. Varian, “Information Goods”

Decreasing Costs and Economies of Scope
F: Ch. 16
WV, Ch. 5

Policy Applications

Economic Regulation and Deregulation
E. Lowry, “Justification for Regulation: The Case for Natural Monopoly,” (B&E).

Pricing Implications

IV. Implications of Uncertainty and Imperfect Information (Lectures 12-14)

Imperfect Information and Market Failure
F, Ch. 7
WV, Ch. 6
R. Ch. 9

Uncertainty and Insurance Markets
F, Ch. 7

Policy Applications

Medical Insurance

Product and Service Quality
Government Insurance Programs

Imperfect Information and Organizational Behavior

Economics of Organizations
O. Williamson, Transactions Cost Economics and Organization Theory

Contracting-Out and Privatization

*V. Government Failure and Public Policy (read for qualifying exams)

The Political Marketplace
WV, Ch. 8.

Behavior of Public Agencies
F, Ch. 9*

*VI. Thinking About the Role of Government (read for qualifying exams)

Does Public Spending Crowd-Out Private Spending on Public Goods

Normative Issues
F, Ch. 13
WV, Ch. 7

Correcting Market and Government Failures: A Summary
WV, Ch. 9