Professor Valerie Ramey
Fall 2000

Economics 130
Public Policy
http://econ.ucsd.edu/~vramey/teaching.html

In this course, we will be using the analytical tools of economics to study issues of public policy. My goal is for you to acquire a basic set of tools for policy analysis, as well as a better understanding of the many public policy issues discussed in class.

Prerequisites: Economics 1A-B or 2A-B and an enthusiasm for issues of public policy.

***Required reading*:** (1) Roger LeRoy Miller, Daniel Benjamin, and Douglass North, *The Economics of Public Issues*, 12th edition; (2) Readings on Soft Reserves; and (3) Handouts distributed in class. The soft reserves readings cover many of the analytical tools that will be discussed as well as some of the applications. The Miller et al book contains discussions of many public policy applications.

Other requirements: Regular class attendance is important because the lectures will contain information not included in the readings. Also, almost every Friday we will discuss several chapters from the Miller, Benjamin and North book, which you will be expected to have read in advance. You are also expected to read regularly about current events and public policy debates in a good newspaper such as *The New York Times, The Los Angeles Times, The Washington Post,* or *The Wall Street Journal*.

***Problem Sets*:** I will assign approximately 4 problem sets, which will be due at the start of class on announced dates. Late problem sets will not be accepted without my prior approval of extenuating circumstances. The lowest grade will be dropped.

Exams: There will be two midterms and one final exam, scheduled as follows:

1st midterm: Friday October 20
2nd midterm: Friday November 17
Final exam: Monday Dec. 4, 11:30 a.m. -2:30 p.m.

Grades:
Problem Sets: 10 %
Each Midterm: 20 %
Final: 50 %

Office Hours: My office hours are Mondays and Wednesdays, 10:00 – 11:00 a.m. My office is Room 326 in the Economics Building.

Course Outline

(Abbreviations: MBN refers to Miller, Benjamin and North *The Economics of Public Issues* and *SRR* refers to the Soft Reserves Reader.)

I. Introduction

II. The Efficiency of Competitive Markets

A. Partial Equilibrium *(SRR Weimer & Vining, pp. 30-41.)*

1. Demand and Supply
2. Surplus from Exchange
3. Pareto Optimality
4. Taxes *(SRR Varian pp. 283-292)*

Applications: **Drugs** (MBN Ch. 5, SSR "Anti-War Movement," SRR "The New Prohibitionism"), **Slave Redemption** (MBN Ch. 7) and **Rent Control** (MBN Ch.11, SRR Browning & Browning, pp. 284-291.)

B. General Equilibrium *(SRR Ramey "Notes on General Equilibrium")*

1. Production
2. Consumption
3. Competitive Equilibrium

Applications: **Crime** (MBN Ch. 4 and Ch. 21) and **Water** (MBN Ch. 6)

III. Market Failures

A. Public Goods *(SRR Weimer & Vining Ch.3, pp. 41-57.)*

1. Rivalrous vs. Nonrivalrous Goods
2. Market Failure
3. Classification of Public Goods and Analysis
   a. Marketable Public Good
   b. Pure Public Good
   c. Common Property Resource
4. Government Provision of Public Goods

Applications: **Traffic** (MBN Ch. 14), **Bison and Fish** (MBN Ch. 24, SRR *Time Magazine* "The Fish Crisis," and *New York Times Magazine* "A Tale of Two Fisheries."), **Forests** (MBN Ch. 28)

B. Externalities *(SRR Weimer and Vining Ch. 3, pp. 57-62)*

1. Market Failure
2. Coase Theorem
3. Pigouvian Taxes

Applications: **Returns to Education** (MBN Ch. 16), **Exhaustible Resources** (SRR Browning & Browning, Section 10.8 "The Supply of Exhaustible Resources").

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B. Externalities *(SRR Weimer and Vining Ch. 3, pp. 57-62)*

1. Market Failure
2. Coase Theorem
3. Pigouvian Taxes

4. Tradeable Permits (*SRR Gramlich Ch. 12, pp. 210 – 214)*

Applications: **Pollution** (MBN Ch. 25, Ch. 26; SRR *New York Times* "Trading on the Pollution Exchange,")

C. Market Power and Natural Monopoly *(SRR Weimer & Vining, pp. 62-65)*

1. Market Failure
2. Government Solutions

Applications: **Anti-competitive behavior** (MBN Ch. 16, 17)

D. Imperfect Information

1. Imperfect Information
2. Incomplete Insurance Markets
   a. Consumer Behavior toward Uncertainty (*SRR Gramlich pp. 73-75*)
   b. Benefits of Insurance
   c. Adverse Selection and Moral Hazard Problems

IV. Income Redistribution (*SRR Brux & Cowen, Ch. 6, Appendix, SRR Stiglitz Ch. 15)*

A. Fairness and Rawls' Criterion

B. Measures of Income Inequality

C. Government Redistribution Programs

Applications: **Minimum Wage** (MBN Ch. 20, SRR *The NBER Digest* Jan. 1998, pp. 5-6.), **Education** (MBN Ch. 18), **Social Security** (MBN Ch. 22)

V. Introduction to Benefit-Cost Analysis

A. Philosophical Basis

B. Valuation of Benefits and Costs

C. When Markets Do Not Exist (SRR *Gramlich, pp. 66-73.*)

Applications: **Safety Regulation** (MBN Ch. 1, 2, and 3; SRR Dolan & Goodman "Regulating Safety: How Safe is Safe Enough?" SRR "Overcoming Junk Science," SRR "The Triumph of the Psycho-Fact")

D. Benefits and Costs Realized at Different Times *(Gramlich, pp. 92-99)*

Applications: **Returns to Education** (MBN Ch. 16), **Exhaustible Resources** (SRR Browning & Browning, Section 10.8 "The Supply of Exhaustible Resources").