

Professor Valerie Ramey
Fall 2009

Economics 130: Public Policy

<http://econ.ucsd.edu/~vramey/econ130.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 many of the public issues of our time.

Prerequisites: Introductory Microeconomics and an enthusiasm for issues of public policy.

Required reading: (1) Roger LeRoy Miller, Daniel Benjamin, and Douglass North, *The Economics of Public Issues*, 16th edition; and (2) Assigned readings available through internet links, including explanatory material I have written and links to articles in the *Economist*, etc.

Other requirements: Regular class attendance is important because the lectures will contain information not included in the readings. Also, we will discuss several chapters from the Miller, Benjamin and North book and news articles on a weekly basis. You will be expected to have read them in advance. You should also stay informed about current events and public policy debates by reading a good newspaper.

Problem Sets & Pop Quizzes: I will hand out problem sets, which are not to be turned in. However, carefully doing the problem sets (without first looking at the answers) is essential for scoring well on exams. On “Discussion Days,” which are usually held once per week, there is the possibility of an unannounced pop quiz at the start of class, consisting of 4 simple True-False questions about the readings assigned for discussion that day. The lowest pop quiz grade will be automatically dropped.

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

1st midterm: Friday October 23

2nd midterm: Wednesday November 18

Final exam: Friday December 11, 8:00 – 11:00 a.m.

I do not give make-up midterms. In case of serious illness or emergency, contact me before the exam to make alternative arrangements.

Grades:	Quizzes:	10 %
	First Midterm:	20 %
	Second Midterm:	20 %
	Final:	50 %

Office Hours: My office hours are Tuesdays, 9 – 10:15 a.m. and Fridays 11:00-11:45 a.m. My office is Room 326 in the Economics Building.

Course Outline

MBN refers to Miller, Benjamin and North *The Economics of Public Issues*. Many of the online links must be accessed through UCSD. If you are off campus, you can set up a proxy server. See <http://libraries.ucsd.edu/services/computing/remote-access/index.html> for more information. If the particular link doesn't work, use Google to search the title, source, and date of the article.

I. Introduction

Examples of Unintended Consequences

MBN Ch. 20 "Mortgage Meltdown"

MBN Ch. 31 "The \$750,000 Steel Worker")

II. Competitive Markets

A. Review of Pareto Efficiency

B. Review of Taxes

C. **Aggregating Individual Supply and Demand** (Ramey "Aggregating Individual Supply and Demand," http://econ.ucsd.edu/~vramey/econ130/Aggregating_Supply_and_Demand.pdf)

D. Current Topics

1. Drugs

MBN Ch. 5 "Sex, Booze and Drugs."

"The Failure of the War on Drugs" Becker-Posner Blog, March 20, 2005
http://www.becker-posner-blog.com/archives/2005/03/the_failure_of.html)

2. Ethanol

MBN Ch. 2 "Ethanol Madness."

"Food Inflation, Riots Spark Worries for World Leaders," *The Wall Street Journal* April 14, 2008, <http://royaldutchshellplc.com/2008/04/14/food-inflation-riots-spark-worries-for-world-leaders/>)

3. Rent Control MBN Ch.10 "Bankrupt Landlords"

4. **Agricultural Subsidies** MBN Ch. 23 “Raising Less Corn and More Hell”
III. Market Power and Natural Monopoly (Ramey “Natural Monopoly,”
http://econ.ucsd.edu/~vramey/econ130/Natural_Monopoly.pdf)

IV. Externalities

A. Market Failure

B. Private Market Solutions and the Coase Theorem

C. Government Solutions: Pigouvian Taxes and Tradeable Permits

D. Current Topics

1. Trash MBN Ch. 26 “The Trashman Cometh”

2. Junk Food “Waist Banned” *The Economist* July 30, 2009, http://www.economist.com/businessfinance/displaystory.cfm?story_id=14120903

3. Pollution

MBN Ch. 28 “Smog Merchants”

MBN Ch. 29 “Greenhouse Economics”

“The Invisible Green Hand,” *The Economist*, July 4, 2002,
http://www.economist.com/surveys/displaystory.cfm?story_id=E1_TNDDNDV

“Green, Easy and Wrong,” *The Economist*, November 6, 2008.
http://www.economist.com/opinion/displaystory.cfm?story_id=12562343

“From a Theory to a Consensus on Emissions,” *The New York Times*, May 17, 2009.
http://www.nytimes.com/2009/05/17/us/politics/17cap.html?_r=1&sq=From%20a%20theory%20to%20a%20consensus%20on%20emissions&st=cse&scp=1&pagewanted=print)

4. **Traffic** “Congestion Pricing,” *The Environmental Defense*, April 1, 2009,
<http://www.edf.org/page.cfm?tagID=6241>)

V. Public Goods

A. Market Failure

B. Optimal Provision of Public Goods

C. Current Topic: Common Property Resource Problem

MBN Ch. 27 “Bye, Bye Bison.”

“A Tale of Two Fisheries,” *New York Times Magazine* August 27, 2000
<http://www.nytimes.com/2000/08/27/magazine/a-tale-of-two-fisheries.html?scp=1&sq=A%20tale%20of%20two%20fisheries%20August%202000&st=cse>

“A Rising Tide” *The Economist* September 18, 2008,
http://www.economist.com/sciencetechnology/displayStory.cfm?story_id=12253181

“Historical Photographs Expose Decline in Florida’s Reef Fish,”
http://www.eurekalert.org/pub_releases/2009-02/uoc--hpe021709.php

VI. Imperfect Information and Uncertainty

A. Imperfect Information

B. Uncertainty and Insurance

C. Current Topic

1. Health Care

“Patients in Florida Lining Up for All That Medicare Covers,” *The New York Times* September 13, 2003,
<http://www.nytimes.com/2003/09/13/business/13BOCA.html?scp=1&sq=Patients%20in%20florida%20lining%20up%20for%20all%20that%20medicare%20covers%202003&st=cse>

“So That’s Why It’s So Expensive,” *Business Week* August 14, 2006,
http://www.businessweek.com/magazine/content/06_33/b3997089.htm

“U.S. Health Care ‘fraught with waste,’ Experts Say,” *Washington Post*, November 30, 2008 <http://www.washingtonpost.com/wp-dyn/content/article/2008/11/29/AR2008112902182.html>

“How American Health Care Killed My Father,” David Goldhill, *The Atlantic Online*, September 2009, <http://www.theatlantic.com/doc/200909/health-care>

“Why We Must Ration Health Care,” *The New York Times* July 19, 2009, <http://www.nytimes.com/2009/07/19/magazine/19healthcare-t.html?scp=1&sq=why%20we%20must%20ration%20health%20care&st=cse>

2. “Lies, Damn Lies, and Statistics”

“How To Understand Statistics,” BBC July 28, 2003, <http://www.bbc.co.uk/dna/h2g2/A1091350>

“In praise of Bayes,” *The Economist* September 28, 2000, http://www.economist.com/sciencetechnology/displayStory.cfm?story_id=E1_PRNJGR

“Why We Worry About the Things We Shouldn’t,” *Time Magazine* November 26, 2006, <http://www.time.com/time/magazine/article/0,9171,1562978,00.html>

John Stossel “The Kidnapping Hysteria.” http://www.realclearpolitics.com/articles/2007/03/the_kidnapping_hysteria.html)

VII. Introduction to Benefit-Cost Analysis

A. Philosophical Basis

B. Valuation of Benefits and Costs: Examples

C. Current Topic: Safety Regulation

MBN Ch. 1 “Death by Bureaucrat.”

MBN Ch. 3 “Flying the Friendly Skies?”

Malcolm Gladwell, “Big and Bad: How the S.U.V. Ran Over Automotive Safety,” August 12, 2004, http://www.gladwell.com/2004/2004_01_12_a_suv.html)

D. Benefits and Costs Realized at Different Times (Ramey, <http://econ.ucsd.edu/~vramey/econ130/pdv.pdf>)

VIII. Income Redistribution

A. Introduction

B. Equity Criteria: Fairness and Rawls' Criteria

C. Equalizing Outcomes vs. Opportunities

D. Current Topics

1. Trends in Income Inequality

MBN Ch. 13, "Immigration, Superstars and Poverty"

"The rich, the poor and the growing gap between them," *The Economist* June 5, 2006
http://www.economist.com/world/displaystory.cfm?story_id=E1_SDVVJTT

"The new (improved) Gilded Age," *The Economist* December 19, 2007,
http://www.economist.com/businessfinance/displayStory.cfm?story_id=E1_TDPNRJPV

"Cheap and Cheerful," *The Economist* July 24, 2008,
http://www.economist.com/businessfinance/displayStory.cfm?story_id=11791427

"The Real Economic Scorecard: Are Americans Really Better or Worse Off?" Robert Samuelson September 4, 2008 *Newsweek*, <http://www.newsweek.com/id/156921/page/1>

2. Wage Differentials (MBN Ch. 11)

3. Minimum Wage (MBN Ch. 12)

4. Social Security (MBN Ch. 25)

5. Education

"Publics Schools are Cheating Children," John Stossel January 11, 2006,
http://www.realclearpolitics.com/Commentary/com-1_11_06_JS.html

"Myth: Schools Need more Money," John Stossel January 18, 2006,
http://www.realclearpolitics.com/Commentary/com-1_18_06_JS.html

"What Makes Finnish Kids So Smart?" *The Wall Street Journal* February 29, 2008
http://online.wsj.com/public/article/SB120425355065601997-7Bp8YFw7Yy1n9bdKtVyP7KBACJA_20080330.html

"Nobel results are indictment of schools," Thomas Sowell October 30, 1999,
<http://www.nsl.mscl.edu/~tsang/CMP/nobel.html>)