

**Economics 130: Public Policy**  
**UCSD Summer Session 2, 2015**

**MTuWTh 11:00 a.m.–12:20 p.m.**  
**WLH 2111**

Instructor: Ivan Major  
e-mail: [imajor@ucsd.edu](mailto:imajor@ucsd.edu)  
Office hours: 10:00–10:50 a.m.

Office: SSB 482

TA: ....

**Brief Course Description**

This course applies the tools of economics to study issues of public policy. Through the course you will develop a basic set of tools for policy analysis, and gain a better understanding of several contemporary public issues.

**Readings**

*Required Textbook: The Economics of Public Issues 18th edition*

*Required Supplemental Readings:* available or linked from course website at TED  
Course Website

**Other requirements**

Regular class attendance is important because the lectures will contain information not included in the readings. Approximately once a week, we will have “Discussion Days” where we spend part of the lecture discussing assigned readings. You will be expected to have read them in advance. You should also stay informed about current events and public policy debates.

I will post announcements, grades, lecture notes, practice exams and brief answer keys on our course website at Ted. <http://ted.ucsd.edu>

**Evaluation**

There will be two exams: one midterm and one final exam. The midterm will be worth 30% of your grade and the final will be worth 50% of your grade. The final exam will be non-cumulative.

Midterm (in class): Friday 8/17/2015

Final Exam: Friday 9/04/2015 11:30 a.m.–2.29 p.m.

*Policies*

Exam dates are not negotiable. If you miss a midterm because of documented illness, sports, or legal reasons, then the weight of the missed midterm will be added to the weight of the final exam.

If you miss the midterm for any other reason, you will receive a score of zero on the midterm. There are no acceptable reasons for missing the final-- if you miss the final, you will receive a

failing grade for the course. Exams are closed-book and closed-notes. If you believe that an exam has not been properly graded, you must discuss this with the TA whom graded the relevant part of the exam within two weeks of when exams were first returned to class. A random subset of graded exams will be photocopied, and altering an exam after we have handed them back will be considered academic misconduct. Any student found guilty of academic misconduct will earn a failing grade for the course. In addition to this academic sanction, the Council of Deans of Student Affairs will impose a disciplinary penalty. The final weighted points earned will be curved in the assignment of letter grades; the following apply as the *minimum* of the letter grade you can expect to earn based on the total weighted % of points you earn in the course:

A+	98-100%
A	93-97%
A-	90-92%
B+	88-89%
B	83-87%
B-	80-82%
C+	78-78%
C	73-77%
C-	70-72%
D	50-69%
F	<50%

### *Course Content*

#### I. Introduction

Tradeoffs, Incentives, and Unintended Consequences

Applications: Patents, Homeownership, Trade Restrictions

Readings: MBN Ch. 1-5, 31.

#### II. Competitive Markets

Pareto Efficiency

Taxes and Subsidies

Aggregating Individual Supply and Demand

Applications: Illegal Drugs, Rent Control, Agricultural Subsidies

Readings: MBN Ch. 6, 7, 10.

#### III. Market Power and Natural Monopoly

Market Failure

Application: Utilities

Readings: MBN Ch. 16, 18-19.

#### IV. Externalities

Coase Theorem

Pigouvian Taxes and Tradeable Permits

Applications: Obesity, Pollution

Readings: MBN Ch. 21, 25-28.

#### V. Public Goods and Common Property Resources

Aggregating Individual Marginal Benefit

## Market Failure

Optimal Provision of public goods

Applications: Fisheries, Fire Pits

The Tragedy of the Commons and Anti-Commons

Readings: Ch. 8, 9, 20, 22

## VI. Imperfect Information and Uncertainty

Imperfect Information

Uncertainty and Insurance

Applications: Health Care, Interpreting Statistics

Readings: MBN Ch. 23–24.

## VII. Benefit-Cost Analysis

Philosophical Basis

Valuation of Benefits and Costs

Discounting Future Benefits and Costs

Applications: Safety Regulation

Readings: MBN Ch. 17.

## VIII. Income Redistribution

Equity Criteria

Applications: Trends in Inequality, Wage Differentials, Minimum Wage,

Social Security, Education

Readings: MBN Ch. 11–15.

## Course Outline

MBN refers to Miller, Benjamin and North *The Economics of Public Issues*. The other readings are available through the internet or TED. Some 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. All readings are required except for those that are flagged “recommended.”

### I. Introduction

#### Examples of Unintended Consequences

MBN Ch. 31, “The \$750,000 Steel Worker”

California Common Sense “Winners and Losers: Corrections and Higher Education in California” <http://www.cacs.org/ca/article/44> (News summary report:

<http://www.nbcbayarea.com/news/local/Prison-Spending-Affecting-Higher-Education-in-California-Report-168756096.html> )

#### Example of Difficult Trade-offs

MBN Ch. 2 “The Economics of Oil Spills”

### II. Competitive Markets

#### A. Review of Pareto Efficiency

#### B. Review of Taxes

#### C. Aggregating Individual Supply and Demand

#### D. Current Topics

##### 1. Drugs

MBN Ch. 6 “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](http://www.becker-posner-blog.com/archives/2005/03/the_failure_of.html)

## **2. Ethanol**

MBN Ch. 27 “Ethanol Madness.”

NY Times article “After Three Decades, Tax Credit for Ethanol Expires”

<http://www.nytimes.com/2012/01/02/business/energy-environment/afterthreedecades-federal-tax-credit-for-ethanol-expires.html>

3. **Rent Control** MBN Ch.10 “Bankrupt Landlords”

## **4. Agricultural Subsidies**

MBN Ch. 22 “Raising Less Corn and More Hell”

NY Times article “While Warning about Fat, U.S. Pushes Cheese Sales”

<http://www.nytimes.com/2010/11/07/us/07fat.html?pagewanted=all>

Recommended: “King Corn” documentary movie (1997)

Recommended: Planet Money’s “Why Taxpayers Pay for Farmers’ Insurance”

(listen) <http://www.npr.org/blogs/money/2012/08/14/158787593/episode-394-whytaxpayerspay-for-farmers-insurance>

## **III. Market Power and Natural Monopoly**

TED notes: “Natural Monopoly”

Washington Post blog: “More states privatizing their infrastructure. Are they making a mistake?” [http://www.washingtonpost.com/blogs/ezra-klein/post/more-states-privatizingtheirinfrastructure-are-they-making-a-mistake/2012/03/31/gIQARtAhnS\\_blog.html](http://www.washingtonpost.com/blogs/ezra-klein/post/more-states-privatizingtheirinfrastructure-are-they-making-a-mistake/2012/03/31/gIQARtAhnS_blog.html)

Slate article: “Infrastructure Price Shouldn’t Maximize Profits”

[http://www.slate.com/blogs/moneybox/2012/04/02/infrastructure\\_privatization\\_leads\\_to\\_bad\\_prices.html](http://www.slate.com/blogs/moneybox/2012/04/02/infrastructure_privatization_leads_to_bad_prices.html)

MBN Ch. 19 “Keeping the Competition Out”

## **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. Miscellaneous examples**

New Yorker article: “Downsizing Supersize”

[http://www.newyorker.com/talk/financial/2012/08/13/120813ta\\_talk\\_surowiecki](http://www.newyorker.com/talk/financial/2012/08/13/120813ta_talk_surowiecki)

The Atlantic article: “All the Spammers in the World May Only Make \$200 Million a Year” <http://www.theatlantic.com/technology/archive/2012/08/all-the-spammers-in-the-worldmay-only-make-200-million-a-year/260814/>

#### **2. Pollution**

MBN Ch. 26 “Greenhouse Economics”

The Economist article: “Capped”

<http://www.economist.com/node/16693293>

The Economist article: “The Invisible Green Hand”

<http://www.economist.com/node/1200205>

Reuters article: “California weighs giving away more CO2 permits”

<http://www.reuters.com/article/2012/08/01/us-california-carbon-idUSBRE8700BS20120801>

## **V. Public Goods**

### **A. Market Failure**

## **B. Optimal Provision of Public Goods**

### **C. Current Topics**

#### **1. Common Property Resource Problem**

MBN Ch. 25 “Save that Species”

“A Tale of Two Fisheries,” *New York Times Magazine* August 27, 2000

<http://www.nytimes.com/2000/08/27/magazine/a-tale-of-twofisheries.html?pagewanted=print&src=pm>

“A Rising Tide” *The Economist* September 18, 2008,

<http://www.economist.com/node/12253181>

“Historical Photographs Expose Decline in Florida’s Reef Fish,”

[http://www.eurekalert.org/pub\\_releases/2009-02/uoc--hpe021709.php](http://www.eurekalert.org/pub_releases/2009-02/uoc--hpe021709.php)

#### **2. Miscellaneous public goods topics**

“Congestion Pricing,” *The Environmental Defense*, April 1, 2009,

<http://www.edf.org/page.cfm?tagID=6241> )

Planet Money’s “Lighthouses, Autopsies, and the Federal Budget” (listen)

<http://www.npr.org/blogs/money/2012/02/14/146889446/the-tuesday-podcastlighthousesautopsies-and-the-federal-budget>

## **VI. Imperfect Information and Uncertainty**

### **A. Imperfect Information**

### **B. Uncertainty and Insurance**

### **C. Current Topic**

#### **1. Health Care**

MBN Ch. 19 “Health Care Reform”

“U.S. Health Care ‘fraught with waste,’ Experts Say,” *Washington Post*, November 30, 2008

<http://www.washingtonpost.com/wpdyn/content/article/2008/11/29/AR2008112902182.html>

Recommended: “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.html?scp=1&sq=why%20we%20must%20ration%20health%20care&st=cse>

“Spending More Doesn’t Make Us Healthier,” *The New York Times*

<http://opinionator.blogs.nytimes.com/2011/10/27/spending-more-doesnt-makeushealthier/>

“What we give up for health care,” *The New York Times*

<http://opinionator.blogs.nytimes.com/2012/01/21/what-we-give-up-for-health-care/>

Recommended: “How to Stop Hospitals from Killing Us,” on TED.

#### **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](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](http://www.realclearpolitics.com/articles/2007/03/the_kidnapping_hysteria.html) )

“The Death Penalty,”

<http://bpp.wharton.upenn.edu/jwolffers/Press/DeathPenalty%28BEPRESS%29.pdf>

## **VII. Introduction to Benefit-Cost Analysis**

### **A. Philosophical Basis**

### **B. Valuation of Benefits and Costs: Examples**

### **C. Benefits and Costs Realized at Different Times** TED notes “Present Values”

### **D. 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](http://www.gladwell.com/2004/2004_01_12_a_suv.html) )

## **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. 14, “Immigration, Superstars and Poverty”

“Striking it Rich,” <http://elsa.berkeley.edu/~saez/saez-USTopIncomes-2010.pdf>

“What the top 1% of earners majored in,”

<http://economix.blogs.nytimes.com/2012/01/18/what-the-top-1-of-earners-majored-in/>

“The new (improved) Gilded Age,” *The Economist* December 19, 2007,

<http://econ.ucsd.edu/~vramey/econ130/protected/index.html>

“Cheap and Cheerful,” *The Economist* July 24, 2008,

<http://econ.ucsd.edu/~vramey/econ130/protected/index.html>

Recommended: “The Great Divergence,”

[http://img.slate.com/media/3/100914\\_NoahT\\_GreatDivergence.pdf](http://img.slate.com/media/3/100914_NoahT_GreatDivergence.pdf)

#### **2. Wage Differentials** (MBN Ch. 11)

Economist article: “Profiting from Sexism” <http://www.economist.com/node/17311877>

#### **3. Minimum Wage** (MBN Ch. 13)

#### **4. Social Security** (MBN Ch. 24)

#### **5. Education**

“How the Decline in K-12 Education Enriches College Graduates,”

[http://www.slate.com/articles/news\\_and\\_politics/the\\_great\\_divergence/features/2010/the\\_united\\_states\\_of\\_inequality/how\\_the\\_decline\\_in\\_k12\\_education\\_enriches\\_college\\_graduates.html](http://www.slate.com/articles/news_and_politics/the_great_divergence/features/2010/the_united_states_of_inequality/how_the_decline_in_k12_education_enriches_college_graduates.html)

“What Makes Finnish Kids So Smart?” *The Wall Street Journal* February 29, 2008

<http://econ.ucsd.edu/~vramey/econ130/protected/index.html>

“Nobel results are indictment of schools,” Thomas Sowell October 30, 1999,

<http://www.nycl.msu.edu/~tsang/CMP/nobel.html> )

New Yorker article “Debt by Degrees”

[http://www.newyorker.com/talk/financial/2011/11/21/111121ta\\_talk\\_surowiecki](http://www.newyorker.com/talk/financial/2011/11/21/111121ta_talk_surowiecki)