

Professor Valerie Ramey  
Spring 2002

**Economics 130  
Public Policy**

<http://www.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 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.

**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 or the Reader 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 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 out of the 4 problem sets will be dropped. There will be approximately 2-3 pop quizzes during the quarter.

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

1<sup>st</sup> midterm: Tuesday April 23

2<sup>nd</sup> midterm: Tuesday May 21

Final exam: Thursday June 13, 8:00 – 11:00 a.m.

<b>Grades:</b>	Problem Sets:	10 %
	Quizzes:	5 %
	Each Midterm:	25 %
	Final:	35 %

**Office Hours:** My office hours are Wednesdays, 12:45 – 2:45 p.m. in Room 326 in the Economics Building. **There will be no office hours on Wednesday, May 15.**



## 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 Possibilities Frontiers
2. Competitive Equilibrium and Pareto Optimality
3. Second Best

*Applications:* **Crime** (MBN Ch. 4), **Water** (MBN Ch. 6)  
**Free Trade and Globalization** (SSR *New York Times* “Reckonings; Hearts and Heads,”  
*The New Republic Online* “Trade Off,” NBER Digest “Globalization Reduces Inequality  
in China,” MBN Ch. 29, 30)



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

*Applications:* **Trash** (MBN Ch. 23), **Pollution** (MBN Ch. 25, Ch. 26; *SRR New York Times* "Trading on the Pollution Exchange," *SRR* "It's Immoral to Buy the Right to Pollute")

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

1. Market Failure
2. Government Solutions

*Applications:* **California Electricity Crisis** (*SRR Journal of Economic Perspectives*, Severin Borenstein, "The Trouble with Electricity Markets," *The New York Times*, Weinstein "Econ 101: It's Right and It's Wrong," *Economics in Action* Sorensen "Whatever Happened to the California Energy Crisis."

#### D. Imperfect Information

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

*Applications:* **Health Care** (*SSR Stiglitz, pp. 300-330, Wall Street Journal* "The Medical Mystery of Sun City," MBN Ch. 12)



#### **IV. 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: Exhaustible Resources* (SRR Browning & Browning, Section 10.8 “The Supply of Exhaustible Resources”).

#### **V. Income Redistribution**

##### **A. Fairness and Rawls’ Criterion**

##### **B. Measures of Income Inequality** (SRR *Brux & Cowen*, Ch. 6, Appendix)

##### **C. Government Redistribution Programs**

*Applications: Taxes* (SRR *SD Union-Tribune* “Californians should thank the rich” ) **Minimum Wage** (MBN Ch. 13, SRR *The NBER Digest* Jan. 1998, pp. 5-6.), **Education** (MBN Ch. 18), **Social Security** (MBN Ch. 22, SSR Robert J. Samuelson, “Spending much more on the elderly”)