

Professor Valerie Ramey
Winter 2003

**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 many of the public issues of our time.

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

Required reading: (1) Roger LeRoy Miller, Daniel Benjamin, and Douglass North, *The Economics of Public Issues*, 13th 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 hand out problem sets, which you will be expected to do, but which are not to be turned in. There will be approximately 3-4 unannounced pop quizzes at the start of class regarding readings assigned for that day. The lowest pop quiz grade will be dropped.

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

1st midterm: January 30

2nd midterm: February 25

Final exam: Wednesday March 19, 11:30 – 2:30 p.m.

Grades:	Quizzes:	10 %
	First Midterm:	25 %
	Second Midterm:	25 %
	Final:	40 %

Office Hours: My office hours are Wednesdays 1:00 – 2:30 or by appointment in 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 (SRR *Weimer & Vining*, pp. 30-41, SRR Ramey "Aggregating Individual Supply and Demand," SRR Ramey "Efficiency and Market Equilibrium," SRR Varian "Taxes" pp. 283-292)

- A. Demand and Supply
- B. Surplus from Exchange
- C. Pareto Optimality
- D. Taxes
- E. Resource Constraints and Production Possibilities Frontiers
- F. Second Best

Topics: **Drugs** (MBN Ch. 5, SSR "Anti-War Movement"), **Slave Redemption** (MBN Ch. 7) and **Rent Control** (MBN Ch.10, SRR Browning & Browning, pp. 284-291.), **Water** (MBN Ch. 6), **Free Trade and Globalization** (SSR *New York Times* "Reckonings; Hearts and Heads," *The New Republic Online* "Trade Off," NBER Digest "Economic Growth is Reducing Global Poverty" MBN Ch. 28, 29)

III. Market Failures

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

- 1. Market Failure
- 2. Government Solutions

Topics: **California Electricity Crisis** (MBN Ch. 13, 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," **Internet Economy** (MBN Ch. 14); **Keeping the Competition Out** (MBN, Ch. 18)

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

1. Market Failure
2. Private Market Solutions and the Coase Theorem
3. Government Solutions: Pigouvian Taxes and Tradeable Permits (*SRR Gramlich Ch. 12, pp. 210 – 214*)

Topics: **Trash** (MBN Ch. 24), **Pollution** (MBN Ch. 20, Ch. 26, Ch. 27; *SRR Economist.com* “The Invisible Green Hand,” *SRR* “It’s Immoral to Buy the Right to Pollute”), **Traffic** (*SRR* “Congestion Pricing”)

C. 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

Topics: **Bison and Fish** (MBN Ch. 25, *New York Times Magazine* “A Tale of Two Fisheries,” *NY Times* “In Mexico, Greed Kills Fish by the Seaful”), **Weather Forecasting** (MBN Ch. 23),

D. Imperfect Information and Uncertainty

1. Imperfect Information
2. Uncertainty and Insurance
 - a. Consumer Behavior toward Uncertainty (*SRR Friedman, pp. 220-243.*)
 - b. Benefits of Insurance
 - c. Adverse Selection and Moral Hazard Problems

Topics: **Health Care** (*SSR Stiglitz, pp. 300-330, Wall Street Journal* “The Medical Mystery of Sun City,” MBN Ch. 11)

IV. Introduction to Benefit-Cost Analysis

A. Philosophical Basis

B. Valuation of Benefits and Costs: Examples

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

Topics: **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)

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

V. Income Redistribution

A. Introduction

B. Equity Criteria: Fairness and Rawls’ Criteria

C. Equalizing Outcomes: Income Redistribution Programs

Topics: **Fighting Poverty** (SRR “Fighting Poverty: Lessons from Recent U.S. History,”), **Taxes** (SRR *SD Union-Tribune* “Californians should thank the rich”) **Minimum Wage** (MBN Ch. 12), **Social Security** (MBN Ch. 22, SSR Robert J. Samuelson, “Spending much more on the elderly”)

D. Equalizing Opportunities: Education

Topics: **Education** (SRR “School Choice Improves Student Achievement,” “Pentagon-Run Schools Excel in Academics”)