

Professor Valerie Ramey
Winter 2005

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: 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*, 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 and 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 28

2nd midterm: February 25

Final exam: Thursday March 17, 11:30 a.m. – 2:30 p.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 Mondays 1:30-3:00 p.m. 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

Topics: Entrepreneurial Response (MBN Ch. 19)

II. The Efficiency of Competitive Markets

A. Review of Introductory Microeconomics (This material will not be covered in class. You should review it on your own or go to the review session.) (SRR "Rationales for Public Policy: Market Failures," "Why Should the Government Intervene in a Market Economy?" pp. 1-10.

B. Aggregating Individual Supply and Demand (SRR Ramey "Aggregating Individual Supply and Demand," pp. 11-15)

C. Taxes (SRR Varian "Taxes", pp. 16-21.)

Topics: Drugs (MBN Ch. 5, SSR "Anti-War Movement" pp. 55-60), **Slave Redemption** (MBN Ch. 7) and **Rent Control** (MBN Ch.10, SRR Browning & Browning, pp.61-68), **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" pp. 69-75, MBN Ch. 28, 29)

III. Market Failures

A. Market Power and Natural Monopoly (SRR "Natural Monopoly," pp. 22-23)

1. Market Failure

2. Government Solutions

Topics: California Electricity Crisis (MBN Ch. 13, *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;" pp. 76-78, **Internet Economy** (MBN Ch. 14); **Keeping the Competition Out** (MBN, Ch. 18)

B. Externalities

1. **Market Failure** (SRR "Externalities," pp. 24-27)
2. **Private Market Solutions and the Coase Theorem**
3. **Government Solutions: Pigouvian Taxes and Tradeable Permits** (SRR "Emission Permits" pp. 28-30)

Topics: **Trash** (MBN Ch. 24), **Pollution** (MBN Ch. 20, Ch. 26, Ch. 27; SRR "The Role of Economics in Climate Change Policy," SRR *Economist.com* "The Invisible Green Hand," SRR "It's Immoral to Buy the Right to Pollute" pp. 79-100), **Traffic** (SRR "Lucky Ken", SRR "Pay as you go." pp. 101-106)

C. Public Goods (SRR "Public Goods" pp. 31-39.)

1. **Rivalrous vs. Nonrivalrous Goods**
2. **Market Failure**
3. **Classification of Public Goods and Analysis**

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" pp. 107-119.), **Weather Forecasting** (MBN Ch. 23),

D. Imperfect Information and Uncertainty

1. **Imperfect Information**
2. **Uncertainty and Insurance**
 - a. **Consumer Behavior toward Uncertainty** (SRR "Uncertainty," pp. 40-41.)
 - b. **Benefits of Insurance**
 - c. **Adverse Selection and Moral Hazard Problems**

Topics: **FDA** (MBN Ch. 2), **Health Care** (SSR *The Economists*, "The Health of Nations" and other articles, *Wall Street Journal* "The Medical Mystery of Sun City," "Patients in Florida Lining Up for All That Medicare Covers" pp. 120-151, MBN Ch. 11)

Safety. How Safe Is Safe Enough? SRR Overcoming Junk Science, SRR The Triumph of the Psycho-Fact,” SRR “Other wars America needs to wage,” SRR “Big and Bad: How the SUV Ran Over Automotive Safety,” pp. 152-169.)
Fighting Poverty: Lessons from Recent U.S. History,” pp. 176-192), **Taxes** (SRR Varian, “In the debate over tax policy...,” *SD Union-Tribune* “Californians should thank the rich” pp. 193-198.), **Minimum Wage** (MBN Ch. 12), **Social Security** (MBN Ch. 22)

D. Equalizing Opportunities: Education

Topics: **Education** (SRR “U.S. Students Behind Foreign Peers in Math,” “School Choice Improves Student Achievement,” “Pentagon-Run Schools Excel in Academics” pp. 199-206.)