

Professor Valerie Ramey
Winter 2009

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*, 15th edition; (2) Readings on Soft Reserves and on the internet; 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 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. There will be approximately 3-4 unannounced pop quizzes at the start of class regarding discussion readings assigned for that day. (Note: discussion readings are usually assigned for only one class per week.) The lowest pop quiz grade will be dropped.

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

1st midterm: Wednesday February 4

2nd midterm: Friday February 27

Final exam: Friday March 20: 11:30 – 2:30

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 8:45 – 9:45 a.m. and Fridays 11:00-11:45 a.m. My office is 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. Note that some of the articles can also be accessed online. For example, as a UCSD student you have access to all articles in the *New York Times*. However, I do not think that articles in *The Wall Street Journal* or *The Economist* are usually available without a subscription.)

I. Introduction

Examples of Unintended Consequences (MBN Ch. 22 “Killer Cars and the Rise of the SUV,” 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,” SRR pp. 1-5 or http://econ.ucsd.edu/~vramey/econ130/e130aggreg_S_D.pdf)

D. Current Topics

1. **Drugs** (MBN Ch. 5 “Sex, Booze and Drugs,” Becker “The Failure of the War on Drugs” SRR, pp. 6-7 or http://www.becker-posner-blog.com/archives/2005/03/the_failure_of.html)
2. **Ethanol** (MBN Ch. 2 “Ethanol Madness,” *The Wall Street Journal*, “Food Inflation, Riots Spark Worries for World Leaders” SRR, pp.8-12)
3. **Slave Redemption** (MBN Ch. 8 “Slave Redemption in Sudan”)
4. **Rent Control** (MBN Ch.10 “Bankrupt Landlords”)

III. Market Power and Natural Monopoly (“Natural Monopoly,” SRR pp. 13-14.)

IV. Externalities

A. Market Failure (“Externalities” SRR pp. 15-18)

B. Private Market Solutions and the Coase Theorem

C. Government Solutions: Pigouvian Taxes and Tradeable Permits (“Emission Permits” SRR pp. 19-21)

D. Current Topics

1. **Trash** (MBN Ch. 26 “The Trashman Cometh”)
2. **Pollution** (MBN Ch. 28 “Smog Merchants”, MBN Ch. 29 “Greenhouse Economics”; *Economist.com* “The Invisible Green Hand,” “Fighting for the Planet,” “Green, Easy and Wrong,” and “Cooling Off,” SRR pp. 22-31)
3. **Traffic** (“Congestion Pricing,” “Pay as you go.” SRR pp. 32-38.)

V. Public Goods

A. Market Failure (“Public Goods” SRR pp. 39-47.)

B. Optimal Provision of Public Goods

Current Topic: Common Property Resource Problems (MBN Ch. 27 “Bye, Bye Bison,” *New York Times Magazine* “A Tale of Two Fisheries,” *Economist* “A Rising Tide” SRR pp. 48-58.)

VI. Imperfect Information and Uncertainty

A. Imperfect Information

B. Uncertainty and Insurance (SRR “Uncertainty,” SRR pp. 59-60.)

C. Current Topic

1. Health Care

NY Times “Patients in Florida Lining Up for All That Medicare Covers,”
“The Economic Woes of Medicare,” *Business Week*, “So That’s Why It’s So Expensive,”
Economist “Running for Cover,” “Do Not Ask or Do Not Answer?,” *Washington Post* “U.S. Health Care ‘fraught with waste,’ Experts Say,” SSR pp. 61-79, MBN Ch. 15 “Monopsony and Competition in Health Care”)

2. “Lies, Damn Lies, and Statistics” (“How To Understand Statistics,” “In praise of Bayes,” “Why We Worry About the Things We Shouldn’t,” John Stossel “The Kidnapping Hysteria.” SRR pp. 80-99.)

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” and MBN Ch. 3 “Flying the Friendly Skies?” SRR Gramlich, “When Markets Do Not Exist,”; SRR Dolan & Goodman “Regulating Safety: How Safe is Safe Enough?” SRR “Big and Bad: How the S.U.V. Ran Over Automotive Safety,” pp. 100-117)

D. Benefits and Costs Realized at Different Times (Ramey SRR pp. 118-119 or <http://econ.ucsd.edu/~vramey/econ130/pdv.pdf>)

VIII. Income Redistribution

A. Introduction

B. Equity Criteria: Fairness and Rawls’ Criteria (“Fairness and the Rawls Criterion,” SRR pp. 120-124.)

C. Equalizing Outcomes vs. Opportunities

D. Current Topics

1. Trends in Income Inequality (MBN Ch. 13, *The Economist* “The rich, the poor and the growing gap between them,” “The new (improved) Gilded Age,” “Cheap and Cheerful,” *SD Union-Tribune* “Linking Immigration and Poverty,” *The Economist* “From welfare to workfare,” SRR pp. 125-144).

2. Wage Differentials (MBN Ch. 11)

3. Minimum Wage (MBN Ch. 12)

4. Social Security (MBN Ch. 24, SRR “Saving Social Security,” p. 145.)

5. Education (*NY Times* “U.S. Students Behind Foreign Peers in Math,” John Stossel “Public Schools are Cheating Children,” “Myth: Schools Need more Money,” *The Wall Street Journal* “What Makes Finnish Kids So Smart?”, Thomas Sowell “Nobel results are indictment of schools,” SRR pp. 146-end.)