

ECONOMICS 132 – WINTER 2011
ENERGY ECONOMICS

Instructor: Richard Carson
Class Meeting Room: 107 Solis Hall
Class Time: TuTh 3:30-4:50pm
Course Website: <http://webct.ucsd.edu>
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COURSE DESCRIPTION

In this class you will be introduced to the way that economists view energy choices by reading peer-reviewed journal articles written by economists actively working on energy issues. Each week we will address specific questions about energy supplies, energy demand, and the structure of energy markets by examining how different economists have looked at these questions, and identify any important aspects of these questions that have not yet been answered.

PREREQUISITES

Econ 1A-B or Econ 2 or Econ 100A AND Math 10C or Math 20C.

COURSE READINGS

Required readings (listed below) have been provided on the course website (<http://webct.ucsd.edu>). To provide an extra incentive for students to read the listed articles before lecture, regular reading quizzes will be given in class during the quarter.

STATEMENT OF ACADEMIC INTEGRITY

Students are expected to do their own work, as outlined in the UCSD policy on Academic Integrity published in the UCSD General Catalog. Cheating will not be tolerated, and any student who engages in suspicious conduct will be subjected to the disciplinary process. Students found guilty of academic misconduct will receive a failing grade in the entire course and may be suspended from UCSD.

QUIZZES AND EXAMINATIONS

Six quizzes will be given in this class

- Quizzes will be given randomly at the start of class time
- Top five quiz scores will be used to determine your quiz grade (lowest quiz score is dropped).

Two midterm exam and one final exam will be given in this section.

- The midterm exams will be given in class: **Thursday January 27th & Tuesday February 24th.**
- The final exam will be given on **Tuesday, March 15th, from 3:00-6:00 p.m.**

ECONOMICS 132 – WINTER 2011

ENERGY ECONOMICS

All quizzes and exams must be taken at the scheduled time and place. Students who arrive late will not receive extra time to complete their quiz/exam. Once a student completes the quiz/exam and hands it in for grading, no other student will be permitted to start the quiz/exam.

EXAMINATIONS

There will be three examinations all given equal weight. None of the exams are explicitly cumulative but it is important to note that the course builds on topics learned earlier so conceptual material learned earlier should not be forgotten whereas specific factual material from earlier parts of the course will not be asked on subsequent exams. This is particularly true for the final. Bring calculators to exams. Blue books are **NOT** needed.

SHORT REPORT

You will need to write a two to three page (max) single spaced report addressed to a some policymaker (your choice; examples include but not limited to Secretary of Energy/EPA, Member of Congress, Head of Energy Company/Environmental Group, Equivalent of Secretary of Energy/EPA in foreign country, Head of World Bank). Topic: pick any policy issue related to an emerging energy economics topic that you will be important in the future to policymakers. The January 4/6th readings may be a good starting point to look for a topic as are the websites listed under Energy Links in the class WebCT site. Turn in a hard copy. **Email NOT ACCEPTED.**

QUIZZES

Short multiple choice questions on assigned reading for that day. Basic concepts/facts emphasized with no computational questions. A template that may be potentially helping in thinking about the key points of an article is provided on the course website under the January 6th lecture.

MISSED QUIZZES AND EXAMINATIONS

- (1) No make-up quizzes/exams will be given. Missed quizzes for any reason will receive a grade of zero.
- (2) Students who miss a midterm exam without an acceptable reason will receive a grade of zero (0) for that exam. Students who miss the midterm with an acceptable reason will have the weight of the other exam increased accordingly. You must take the final exam to receive a grade in this course.
- (3) Reasons for missed midterm exams must be **pre-approved** by the instructor (except when this is not possible in an emergency situation). Students who make initial contact after the exam will have to document why they could not make contact prior to the exam. In addition, any student who misses an exam due to physical illness will be required to provide documentation from a health care professional indicating why the student was physically unable to take the exam. All documentation and an additional signed written statement explaining the relevant circumstances of the absence must be provided to the instructor within two working days of the student's return to campus. Failure to comply with any of the above in the specified manner will result in a grade of zero (0) for the exam.

PROBLEM SETS

There will be three problems sets. Each emphasizes the types of quantitative questions needed for the next exam. Students encouraged to work in groups but each must turn in a separate fully worked problem set. Hard copy of problem set turned in class required. **Email submissions will not be accepted.**

READINGS

Students are responsible for all class readings unless clearly noted as optional. Optional readings may be covered in class but you are only responsible for the material gone over in class. Some additional optional readings not on this syllabus are provided on the course website in case you want to look at particular issues in more depth.

GRADING

Grades will be curved with final letter grade determined by distribution of class raw numerical scores. Your raw numerical score will be determined as follows:

Quizzes	= 5% (5 quizzes @ 1 percent each)
Short Report	= 5%
Problem Sets	= 15% (3 problem sets @ 5 percent each)

ECONOMICS 132 – WINTER 2011

ENERGY ECONOMICS

Midterm Exam 1	=	25%
Midterm Exam 1	=	25%
Final Exam	=	25%
Total Raw Score	=	100%

DATE: TOPIC

January 4 & 6: Overview of Course/Challenge of Climate Change
Review of Basic Economic Concepts/Energy Facts

January 11: Role of Energy in U.S./World Economies: Micro & Macro Perspectives

January 13: Theory of Exhaustible Resources

Short Report Due January 13th

January 18: Theory of Exhaustible Resources, continued

January 20: OPEC and Energy Cartels; Search for New Supplies/Hubbert's Curve

January 25: International Trade and Security Issues Related to Energy

Problem Set I Due January 25th

January 27: **Midterm Exam 1**

February 1: Electricity: Generation, Load Profiles, Distribution

February 3: Electricity Regulation and Deregulation

February 8: Electricity Deregulation/California Energy Crisis

February 10: Coal, Combined Cycle [Natural] Gas Turbines, Hydro, Nuclear

February 15: Alternative sources energy (Wind, Geothermal, Large Scale Solar) & Transmission Issues

Problem Set II Due February 15th

February 17: Automobiles

February 22: End-User Programs: Home/Commercial Energy Conservation & Solar Installations

February 24: **Midterm Exam**

March 1: Local/Regional Environmental Externalities Related to Burning Fossil Fuels

March 3: Global Climate Change: The Underlying Science and Technical Solutions

March 8: Global Climate Change: The Economic Perspective

Problem Set III Due March 8th

March 10: Global Climate Change International, National, State & Local Action

March 15: **Final Exam**

ECONOMICS 132 – WINTER 2011

ENERGY ECONOMICS

DATE: READINGS

January 4&6: Course Overview, Review of Basic Energy Facts, Review of Relevant Economic Concepts

Economist Magazine (2009), “A Special Report on Climate and the Carbon Economy,” Dec. 5. and *Economist Magazine* (2008), “A Special Report on the Future of Energy,” June 21.

British Petroleum (2010), “Statistical Review of World Energy”. Peter, G. (2009), “Energy Measurement Units”, Handout for UCSD Econ 132. These documents & U.S. Energy Information Agency site <http://www.eia.doe.gov/> are good sources for energy information.

Jacobson, M.Z. and M. Delucchi (2009), “A Path to Sustainable Energy by 2030,” *Scientific American*, November: 58-65. and Mirsky, S. (2008), “The Need to Lead Clean Tech: A Conversation with Thomas Friedman,” *Scientific American Earth* 3.0, 18: 42-45.

January 11: Role of Energy in U.S./World Economies: Micro & Macro Perspectives

Fouquet, R. and P.J.G. Pearson (1998), “A Thousand Years of Energy Use in the United Kingdom,” *The Energy Journal*, 19: 1-41.

Hamilton, J.D. (2008), “Oil and the Macroeconomy,” in *New Palgrave Dictionary of Economics*.

Optional: Hamilton, J.D. (2009), “Causes and Consequences of the Oil Shock of 2007-2008,” *Brookings Papers on Economic Activity*, 1: 215-259.

January 13 and January 18: Theory of Exhaustible Resources

Hartwick, J. and N. Olewiler (1998), “Non-Renewable Resource Use: The Theory of Depletion,” [Chapter 8] and “Nonrenewable Resource Use: Departures from the Competitive Case and from Fixed Stock Size,” [Chapter 9] from *The Economics of Natural Resource Use*, 2nd ed. (Addison-Wesley).

January 20: OPEC and Energy Cartels; Search for New Supplies Including Hubbert’s Curve

Alhajji, A.F. and D. Huettner (2000), “OPEC and World Crude Oil Markets from 1973 to 1994: Cartel, Oligopoly, or Competitive?,” *Energy Journal*, 21: 31-60. & Mason, C. and S. Polasky (2005), “What Motivates Membership in Non-Renewable Resource Cartels: The Case of OPEC,” *Resource and Energy Economics*, 27: 321-342.

Econ 132 Handouts: “Hubbert Curve Theory”, “Estimates of the U.S. Hubbert Curve”, “U.S. Geological Service “World Oil Resource Estimates”

Optional: Atkins, F.J. and A.J. MacFadyen (2008), “A Resource Whose Time Has Come? The Alberta Oil Sands as an Economic Resource,” *The Energy Journal*, 29: 77-98.

January 25 & February 1: International Trade and Security Issues Related to Energy

Nordhaus, W. (2009), “The Economics of an Integrated World Oil Market,” keynote address, International Energy Workshop, Venice, July. And, U.S. Energy Information Agency, “2006 Estimates of Oil Exports, Consumption and Net Imports”.

Delucchi, M. and J. Murphy (2008), “U.S. Military Expenditures to Protect the Use of Persian Gulf Oil for Motor Vehicles,” *Energy Policy*, 36: 2253-2264.

ECONOMICS 132 – WINTER 2011

ENERGY ECONOMICS

February 3 & February 8: Electricity: Generation, Load Profiles, Distribution and Regulation

Shaten, R. (2008), “Capacity and Demand,” Energy & Resource Economics Workbook, (Internal Energy). and Econ 132 Handout: G. Peters “The Cournot Model”.

Viscusi, W.K., J.E. Harrington Jr., and J.M. Vernon (2005), “Natural Monopoly Regulation and Electric Power,” [Chapter 5] MIT Press: *Economics of Regulation and Antitrust*, 4th Edition.

Brennan, T., K. Palmer, S. Martinez (2002), “Implementing Electricity Restructuring, *ERE* 22: 99-132.

Borenstein, S. (2002), “The Trouble with Electricity Markets: Understanding California’s Restructuring Disaster,” *J. of Economic Perspectives* 16: 191-211.

February 10: Traditional Power Sources: Coal, Hydro, Natural Gas, and Nuclear

David G. Victor and Richard Morse, 2009, “Living with Coal: Climate Policy’s Most Inconvenient Truth,” *Boston Review*, September/October, pp. 7-14.

Joskow, P.L. and Parsons (2009), “The Economic Future of Nuclear Power,” *Daedalus*, 138: 45-59. and Wald, M. (2008), “Can Nuclear Power Compete,” *Scientific American Earth* 3.0, 18: 26-33.

International Energy Agency (2009), “Gas Fired Power,” Tech Brief E02. & Doyle, R. (2004), “Energy Geopolitics: World Power Could Shift If Natural Gas Supplants Oil,” *Scientific American*, October: 36.

February 15: Alternative sources energy (Wind, Geothermal, Wave, Large Scale Solar) & Transmission Issues

Charles, D. (2009), “Renewables Test IQ of Grid,” *Science*, 324: 172-175. and Wald (2009), “The Power of Renewables,” *Scientific American*, March: 56-60.

U.S. Department of Energy (2002), *National Transmission Grid Study* (U.S. DOE). Note Executive Summary, Sections 1 and 2 are required reading. Other parts of report are *optional* reading.

February 17: Automobiles

Parry, I., M. Walls, and W. Harrington (2007), “Automobile Externalities and Policies,” *Journal of Economic Literature*, 45: 373-399.

Optional: and Parry, I. and K. Small (2009), “Should Urban Transit Subsidies Be Reduced,” *American Economic Review*, 99: 700-724. “Future of Cars,” *Scientific American* (2009). Bento, A. L. Goulder, E. Henry, M. Jacobsen, and R. van Haefen (2005), Distributional and Efficiency Impacts of Gasoline Taxes,” *American Economic Review*, 95: 282-287.

February 22: End-User Programs: Home/Commercial Energy Conservation & Solar Installations

Gillingham, K., R. Newell and K. Palmer (2006), “Energy Efficiency Policies: A Retrospective Examination,” *Annual Review of Environmental and Resource Economics*, 31: 161-192.

Borenstein, S. (2008), “The Market Value and Cost of Solar Photovoltaic Electric Production,” CSEM paper 176, UC, Berkeley. & D. Brooks (2008), “MisLEEDING,” *Scientific American Earth* 3.0, 54-58.

March 1: Environmental Externalities Related to Fossil Fuels

ECONOMICS 132 – WINTER 2011

ENERGY ECONOMICS

Deweese, D. (2008), "Pollution and the Price of Power," *The Energy Journal*, 29: 81-100. and Carlin, J. "Environmental Externalities in Electric Power Markets," U.S. Energy Information Agency.

Carson, R. (2009), "Environmental Kuznets Curve," Review of Environmental Economics and Policy. and Webber, M. (2008), "Catch 22: Water vs. Energy," *Scientific American* 3.0, 18: 34-41.

Optional: Komey and Krause (1997), "Introduction to Environmental Externalities," and Carson, R., et al. (2003), "Contingent Valuation and Lost Passive Use: Damages from the Exxon Valdez Oil Spill," *Environmental and Resource Economics*, 25: 257-283.

March 3: Global Climate Change: Underlying Science and Technical Solutions

Le Treut, H. and R. Somerville (2007), "Historical Overview of Climate Change Science," in *Climate Change 2007: The Physical Basis*, Intergovernmental Panel on Climate Change (IPCC).

Pacala, S. and R. Socolow (2004), "Stabalization Wedges: Solving the Climate Problem for the Next 50 Years with Current Technologies," *Science*, 305: 968-972.

Auffhammer, R. and R. Carson (2008), "Forecasting the Path of China's CO2 Emissions Using Provincial Level Information," *J. of Environmental Economics and Management*, 55: 229-247.

Victor, D. M.G. Morgan, J. Apt, Steinbruner K. Ricke (2009), "The Geoengineering Option: A Last Resort Against Climate Change," *Foreign Affairs*, 88: 64-76.

March 8: Global Climate Change: The Economic Perspective

Stern, N. (2008), "The Economics of Climate Change," *American Economic Review*, 98: 1-37. And Nordhaus, W. (2007), "A Review of the Stern Review on the Economics of Climate Change," *Journal of Economic Literature*, 45: 686-702.

Nordhuas, W. (2007), "To Tax or Not: Alternative Approaches to Slowing Global Warming," *Review of Environmental Economics and Policy*, 1: 26-44.

March 10: International, National, State & Local Action on Climate Change

Carson, R., L. Louviere, and E. Wei (2010), "Alternative Australian Climate Change Plans: The Public's View," *Energy Policy*.

Fullerton, D. and D. Karney (2009), "The Allocation of Permits in U.S. Climate Change Legislation," *Economists' Voice*, November.

Optional. Ellerman, A. D. and P.L. Joskow (2008), "The European Union's Emission Trading System in Perspective," Pew Center on Global Climate Change Report.

Optional: Rose, A., D. Wei, J. Wennberg, and T. Peterson (2009), "Climate Change Policy Formation in Michigan," *International Regional Science Review*, 32:1-21.