

Professor Valerie Ramey
Winter 2007

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*, 14th edition; (2) Readings on Soft Reserves; and (3) Handouts distributed in class. In reviewing material, I will also refer to Frank and Bernanke's *Principles of Economics*, 2nd edition, which many of you will have used for introductory economics. If you do not have Frank and Bernanke's textbook, any other good introductory textbook can be substituted.

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 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: Friday February 2

2nd midterm: Friday March 2

Final exam: Wednesday March 21, 8:00 – 11:00 a.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 Tuesdays, 1:00 – 2:30. 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. *FB* refers to the 2nd edition of Frank and Bernanke, *Principles of Economics*.)

I. Introduction

Examples of Unintended Consequences (MBN Ch. 21 “Killer Cars and the Rise of the SUV,” MBN Ch. 30 “The \$750,000 Steel Worker”)

II. Competitive Markets

A. Review of Pareto Efficiency

B. Review of Taxes (*FB*, pages 182-187.)

C. Aggregating Individual Supply and Demand (SRR Ramey “Aggregating Individual Supply and Demand,” pp. 1- 5)

D. Current Topics

1. **Drugs** (MBN Ch. 5 “Sex, Booze and Drugs,” SRR Becker “The Failure of the War on Drugs” pp 6-7)
2. **Slave Redemption** (MBN Ch. 8 “Slave Redemption in Sudan”)
3. **Rent Control** (MBN Ch.11 “Bankrupt Landlords”, SRR Browning & Browning, pp.8-15)
4. **Water** (MBN Ch. 7 “Is Water Different”)

III. Imperfect Competition

A. Market Power and Natural Monopoly (*FB*, pp. 221-235, SRR “Natural Monopoly,” pp. 16-17)

B. Current Topic: California Electricity Crisis (SRR *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. 18-20)

IV. Externalities

A. Market Failure (*FB*, pp. 277-286, *SRR “Externalities”* pp.21-24)

B. Private Market Solutions and the Coase Theorem

C. Government Solutions: Pigouvian Taxes and Tradeable Permits (*SRR “Emission Permits”* pp. 25-27)

D. Current Topics

1. **Trash** (MBN Ch. 25 “The Trashman Cometh”)

2. **Pollution** (MBN Ch. 27 “Smog Merchants”, MBN Ch. 28 “Greenhouse Economics”; *SRR Economist.com* “The Invisible Green Hand” and “So much hot air,” *SRR Newsweek* “Global Warming and Technology,” pp. 28-36)

3. **Traffic** (*SRR “Lucky Ken”, SRR “Pay as you go.”* pp. 37-42.)

V. Public Goods

A. Market Failure (*FB*, pp. 373-385, 287-291, *SRR “Public Goods”* pp. 43-51.)

B. Optimal Provision of Public Goods

C. Current Topic: Common Property Resource Problems (MBN Ch. 26 “Bye, Bye Bison,” *SRR New York Times Magazine* “A Tale of Two Fisheries,” *NY Times* “In Mexico, Greed Kills Fish by the Seaful” pp. 52-64.)

VI. Imperfect Information and Uncertainty

A. Imperfect Information

B. Uncertainty and Insurance (*SRR “Uncertainty,”* pp. 65-67.)

C. Current Topic: Health Care (*SSR Wall Street Journal*” Health Spending Likely to Outpace Economy’s Growth,” *NY Times* “Patients in Florida Lining Up for All That Medicare Covers,” *BusinessWeek*, “So That’s Why It’s So Expensive,” *NBER Digest* “Effects of Rising Health Insurance Premiums,” pp. 68-76, MBN Ch. 12 “Rationing Health Care”)

D. Current Topic: “Lies, Damn Lies, and Statistics” (*SRR BBC* “How To Understand Statistics,” *SRR* “In praise of Bayes,” *SRR* “Overcoming Junk Science,” *SRR* “The Triumph of the Psycho-Fact” pp. 77-89.)

VII. Introduction to Benefit-Cost Analysis

A. Philosophical Basis

B. Valuation of Benefits and Costs: Examples

C. Current Topic: Safety Regulation (MBN Ch. 1, 2 and 3; SRR Gramlich, “When Markets Do Not Exist,” pp. 94-97; SRR Dolan & Goodman “Regulating Safety: How Safe is Safe Enough?” SRR “Big and Bad: How the S.U.V. Ran Over Automotive Safety,” pp. 90-102.))

D. Benefits and Costs Realized at Different Times

VIII. Income Redistribution

A. Introduction

B. Equity Criteria: Fairness and Rawls’ Criteria (SRR “Fairness and the Rawls Criterion,” pp. 108-112.)

C. Equalizing Outcomes: Income Redistribution Programs

Topics: Fighting Poverty (Taxes (SRR *The Economist* “The rich, the poor and the growing gap between them,” SRR *SD Union-Tribune* “Immigration and the Rise of Poverty,” SRR *The Economist* “From welfare to workfare,” pp. 113-129), **Minimum Wage** (MBN Ch. 13), **Social Security** (MBN Ch. 23, SRR “Saving Social Security,” p. 130.)

D. Equalizing Opportunities: Education

Topics: Education (SRR *NY Times* “U.S. Students Behind Foreign Peers in Math,” SRR John Stossel “Publics Schools are Cheating Children,” “Myth: Schools Need more Money,” Thomas Sowell “Nobel results are indictment of schools,” pp. 131-end.)