

**PAI 723
Economics for Public Decisions
Fall 2020**

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Office Hours via Zoom link:
Monday 10:00-11:30 AM
Tuesday 10:00-noon
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Tuesday 2:30-4:00 PM
Thursday 1:00-2:00 PM

******* PLEASE NOTE THAT ALL PLANS FOR THE COURSE ARE TENTATIVE AND MAY
CHANGE AS CONDITIONS WARRANT *******

Course Description: The goal of this course is to introduce you to the application of the principles of microeconomic analysis to policy questions. Upon completion of the course, you should be able to understand basic economic analysis of public policy and be able to apply the principles of economics to these policies. Students will learn to analyze various market scenarios to assess how goods and services will be allocated in each scenario, and students will be able to assess the efficiency and distributional impacts of government intervention in the market.

Of course, to apply economic principles to public policy, we first need to master the tools that economists use. Microeconomics studies the *allocation of scarce resources* among individual agents. Examples of such agents include consumers, firms, or workers. The allocation of resources is determined by interactions in *markets*. The course will focus on how markets work. In particular, we will see how agents, such as buyers and sellers, are able to interact in such a way that mutually beneficial exchanges are possible. As we analyze various market scenarios, we will ask what role government intervention into the market may play, and whether such intervention is necessary.

We begin by introducing the basic model of market interaction – supply and demand curves in perfect competition. Most of the first half of the course will be spent developing the models of consumer and producer behavior underlying these curves. Then, we examine situations in which the perfectly competitive model breaks down, such as in the face of monopolies or pollution. We will be interested both in the effects brought on by such complications and possible remedies for them. Finally, the course concludes with an introduction of cost-benefit analysis.

Reading: There is no required text for this course. I include information on several recommended texts below. Experience has shown that different texts are a better fit for different students, depending on their economics background coming into the course. If you would like a textbook to guide you through the course, feel free to choose the one that you think will best suit your needs. You should be able to match the topics on the syllabus to the appropriate chapter in each of these texts, and am happy to discuss your choices with you. Lecture notes for each class will be made available on-line.

While there is no required textbook, a few supplementary readings will be used. These articles are mostly taken from sources such as *The New York Times* and *The Economist*. Their purpose is to illustrate how the principles we discuss in class apply in everyday situations. All of these articles are available electronically through the Syracuse University library. Links to the articles are available on the class web site.

Below is a description of optional textbooks that may be of interest to you. All are readily available on-line.

Microeconomics for Public Decisions by Anne C. Steinemann, William C. Apgar, and H. James Brown. Students with little economic experience may find this book a useful introduction to the topic. This book is aimed at a public administration audience. Hence, compared to the other texts listed here, it offers examples that are more relevant for this class. Also, unlike the other texts listed, it does include some discussion of cost-benefit analysis, which we will cover at the end of the course. However, the level of detail in the book is lower than what we will cover in class. Some of the more advanced material is only covered in appendices, and the book does not provide good examples of solved problems. It is expensive new, but reasonably priced used editions are available on-line.

Microeconomics for Public Managers by Barry P. Keating and Maryann O. Keating. Like the above text, this book is aimed at a public sector audience. It offers even less detail than the Steinmann *et al.* text, and thus only serves as an introduction to what we'll cover in class. However, it is available in paperback at very reasonable prices.

Microeconomics by Jeffrey M. Perloff. This text is now in its seventh edition, but older versions are readily available on-line and are sufficient. This book is aimed at undergraduates taking intermediate microeconomics. There are many other similar texts available that would also be suitable. While the level of material is similar to what we cover in class, it does assume the reader has taken an introductory economics course. Thus, when I've used this book in the past, students without a previous economics class did not find the text helpful. The biggest strength of this book is its examples of solved problems. Many of these are similar to examples we will cover in class. Students with prior economics experience may find this book useful.

Principles of Microeconomics by N. Gregory Mankiw. This is an example of a useful principles of economics textbook. Like the texts for public managers, this text does not go as far as we will in class solving problems. Moreover, its examples are more general, since it is aimed at a wider audience. However, the graphical examples are more detailed and more useful than the public sector textbooks, so a text such as this may be useful to those who have no previous economics experience. If ordering an introductory textbook, note that many authors have both larger texts (e.g. Mankiw's *Principles of Economics*) that include both microeconomics and macroeconomics and smaller texts that focus on just macro or micro. You will only need a text that focuses on micro. Be sure that the text includes coverage of consumer theory with indifference curves. Not all introductory texts include this topic.

Principles of Microeconomics by Libby Rittenberg and Timothy Tregarthen. This book is similar to other introductory economics textbooks. Because it is available electronically, it is available for a lower price than the other textbooks – as low as \$34.95 for an on-line only version. The text is available online at http://catalog.flatworldknowledge.com/catalog/editions/rittenmicro_2-0-principles-of-microeconomics-2-0. Note that this company also has an intermediate microeconomics textbook (*Introduction to Economic Analysis* by R. Preston McAfee, Tracy R. Lewis). However, you will not want to use this text, as it is more advanced and uses calculus throughout the text.

Prerequisites: The course is designed for students with little or no background in economics. The only mathematics used are graphs and algebra. The on-line math review for incoming students covers the necessary math for this course. If you are unfamiliar with this material and/or are unsure whether you have the proper preparation, please see the information found at <https://www.maxwell.syr.edu/paia/admissions/mpa-mair/admitted-students/pre-arrival/quantitative-skills/>.

Home page: A home page for this course will be available at:

<https://dcpopp.expressions.syr.edu/pai723/>

You can also connect to the home page through my personal home page, which can be found at:

<https://dcpopp.expressions.syr.edu>

The web site includes information about the class, links to articles on the reading list, and useful economics links. In addition, during the semester, problem sets and solutions will be posted. Finally, after each class, I will post the main points of the lecture for review.

E-mail discussion group: I have set up an e-mail discussion group for the class. All students are required to subscribe to the mailing list, and to check e-mail regularly. Information on how to subscribe is included below. You may use this list for any class related activities, such as asking questions, continuing discussions from class, and instigating new discussions. In particular, I hope that it will be useful to you as you work on homework assignments. I will use the list to post practice problems, keep you informed about assignments, answer questions, and instigate discussion. When messages are sent to the list, all students subscribed to the list will get the message.

I have already subscribed students who pre-registered for the course. If you have not yet been subscribed, please send an e-mail to listserv@listserv.syr.edu with the following message:

SUB PAI723 Jan Smith

Note that this is all that need be in the body of the message, and that it must be typed in exactly as written, except, of course, that you should replace your name for Jan Smith. When you sign up, you will receive a message with detailed instructions for participating in the mailing list. ***This message will ask that you reply, so as to confirm that you intended to join the list. It is important that you remember to reply, or else you will not be added to the list!***

Also, be sure to type "SUB PAI723" not "SUB PAI 723" (that is, do not include a space between PAI and 723).

A couple of technical notes: E-mails sent to the list are sent to EVERYONE who subscribes to the list. If you want to send a personal e-mail to a specific class member (or to me), use their e-mail address, not the list's address. The list is a good place to ask questions about class materials, because everyone can see the answer. It is not the way to let me know that you are going to miss class on Wednesday. For that you should send an e-mail to me personally. Also, I am considered the owner of this list. If you experience any problems, please e-mail me directly. My e-mail address is dcpopp@maxwell.syr.edu.

Grading: Your grade in this course will be based on problem sets (10%), completion of three policy memos (45%), and three quizzes (45%).

All quizzes will be held on-line using Blackboard, near the dates listed in the syllabus. I will provide more specific details on the quizzes as the time approaches. All quizzes will be open book exams and must be done independently. Other than your own notes, no other outside resources are allowed. If you must miss one of the quizzes or the final exam due to illness, family emergency, or religious holiday, a makeup exam may be arranged, provided that appropriate documentation of the emergency can be provided. **Except in the case of illness or unexpected family emergency, arrangements for the makeup exam must be made before the originally scheduled exam date.**

If you believe that you need accommodations for a disability, please contact the Office of Disability Services(ODS), <http://disabilityservices.syr.edu>, located in Room 309 of 804 University Avenue, or call (315) 443-4498 for an appointment to discuss your needs and the process for requesting accommodations. ODS is responsible for coordinating disability-related accommodations and will issue students with documented disabilities Accommodation Authorization Letters, as appropriate. Since accommodations may require early planning and generally are not provided retroactively, please contact ODS as soon as possible.

Religious holidays: SU's religious observances policy, found at <http://hendricks.syr.edu/spiritual-life/observances.html>, recognizes the diversity of faiths represented among the campus community and protects the rights of students, faculty, and staff to observe religious holy days according to their tradition. Under the policy, students are provided an opportunity to make up any examination, study, or work requirements that may be missed due to a religious observance provided they notify their instructors before the end of the second week of classes. For fall and spring semesters, an online notification process is available through MySlice/Student Services/Enrollment/My Religious Observances from the first day of class until the end of the second week of class.

In this class, exams will be rescheduled as soon as possible after the exam date. If you will miss a class when a policy memo is due, you must hand in the policy memo before class. Since we discuss the memos in class, no late memos will be accepted.

Finally, note that if you miss a class, it is your responsibility to find out if you missed any assignments or handouts. Not being present when an assignment was given out is **not** an acceptable excuse for missed or late work!

Policy Memos: Each policy memorandum is based on one of the three case studies, which are included on the course outline. The three cases provide students with practical applications of the tools taught in this course to real policy issues, as well as practice at written communication skills. They are graded on effectiveness, including both writing and analysis. All students are expected to prepare for each case and to participate in case discussions. During case discussions (as during all class discussions), students are expected to treat all their classmates with respect.

Each student is required to hand in all three case memos to be graded. For those attending class in person, please bring a hard copy of the memo to class. All other memos may be submitted electronically and must be submitted before the start of class. *The memos must be typed, and changes made to the memo during class will be ignored.* Late memos will not be accepted, as it would be unfair to other students to hand in a memo after the case has been discussed in class.

Problem Sets: Problem sets will be distributed on-line following the schedule on the next page. Each will be distributed on a Wednesday. Solutions will be posted the following Wednesday. You will not need to hand in the problem set for grading. Rather, you will be asked to review the solutions and evaluate your own problem set. An e-mail self-evaluation of your problem set is due to the TA (carick@syr.edu) by 5 PM on the Friday after solutions are posted. In this e-mail, you should note which questions you had correct and which were incorrect. For those that were incorrect, you should briefly state what went wrong and whether you understand your error. For example: "On question two I shifted the supply curve in instead of out. After reading the solution, I understand what it should shift out." Or, "On question two I shifted the supply curve in instead of out. After reading the solution, I still do not understand why shifting in is incorrect."

Problem sets are intended to be learning experiences for you. You are encouraged to consult other students, myself, and the TA for help with the problem sets, with two caveats. First, you should make an effort to write up your own answers, and each student must submit their own self-evaluation for each problem set. Second, attempt the problems yourself before consulting others. This is for your own benefit, since you won't be able to consult others during quizzes!

Academic Honesty: Syracuse University's Academic Integrity Policy reflects the high value that we, as a university community, place on honesty in academic work. The policy defines our expectations for academic honesty and holds students accountable for the integrity of all work they submit. Students should understand that it is their responsibility to learn about course-specific expectations, as well as about university-wide academic integrity expectations. The policy governs appropriate citation and use of sources, the integrity of work submitted in exams and assignments, and the veracity of signatures on attendance sheets and other verification of participation in class activities. The policy also prohibits students from submitting the same work in more than one class without receiving written authorization in advance from both instructors. Under the policy, students found in violation are subject to grade sanctions determined by the course instructor and non-grade sanctions determined by the School or College where the course is offered as described in the Violation and Sanction Classification Rubric. SU students are required to read an online summary of the University's academic integrity expectations and provide an electronic signature agreeing to abide by them twice a year during pre-term check-in on MySlice. For more information about the policy, see <http://class.syr.edu/academic-integrity/policy/>. The Violation and Sanction Classification Rubric establishes recommended guidelines for the determination of grade penalties by faculty and instructors, while also giving them discretion to select the grade penalty they believe most suitable, including course failure, regardless of violation level. Any established violation in this course may result in course failure regardless of violation level.

Of particular importance for this class, while you are free to work together on memos, each student must write up and hand in their own memo. Collaborative writing is not allowed. All exams will be offered on-line this year. While you will be allowed to use your notes as references during the exams, you may not consult with others about the exam during the entire time the exam is available on-line. Collaboration on exams will result in course failure.

Original class materials (handouts, assignments, tests, etc.) and recordings of class sessions are the intellectual property of the course instructor. It is important that everyone feel free to participate in class and not worry about recordings being distributed further. Thus, while you may download these materials for your use in this class, you may not provide these materials to other parties (e.g., web sites, social media, other students) without permission. Doing so is a violation of intellectual property law and of the student code of conduct.

Stay Safe Pledge: Syracuse University's Stay Safe Pledge reflects the high value that we, as a university community, place on the well-being of our community members. This pledge defines norms for behavior that will promote community health and wellbeing. Classroom expectations include the following: wearing a mask that covers the nose and mouth at all times, maintaining a distance of six feet from others, and staying away from class if you feel unwell. Students who do not follow these norms will not be allowed to continue in face-to-face classes; repeated violations will be treated as violations of the Code of Student Conduct and may result in disciplinary action.

Course Schedule

A tentative schedule for all class assignments appears below. Please note this is subject to change.

Assignment	Hand out	Due Date
Problem Set #1	Wednesday, September 2	Wednesday, September 9
Problem Set #2	Wednesday, September 9	Wednesday, September 16
Case #1	Wednesday, September 16	Wednesday, September 23
Quiz #1		Wednesday, September 30*
Problem Set #3	Wednesday, September 30	Wednesday, October 7
Problem Set #4	Wednesday, October 7	Wednesday, October 14
Problem Set #5	Wednesday, October 14	Wednesday, October 21
Quiz #2		Wednesday, October 28*
Case #2	Wednesday, October 28	Wednesday, November 4
Problem Set #6	Wednesday, November 4	Wednesday, November 11
Case #3	Wednesday, November 11	Wednesday, November 18
Quiz #3		TBA during final exam period

*: Exact date and time to be determined

Course Outline

I. Introduction: Microeconomics and Markets

August 24 & 26 – Introduction

Reading: Porter, Eduardo, “Rationing Health Care More Fairly,” *The New York Times*, August 22, 2012, B1, B2.

Irwin, Neil, “How Much is a C.E.O. Worth? America’s Confused Approach to Pay,” *The New York Times*, August 6, 2015, B5.

Kolata, Gina, “Tiny Heart Devices Reduce Death Rate, But Cost is Concern,” *The New York Times*, March 20, 2002, A1, A26.

Brooks, David, “Do Markets Work in Health Care?” *The New York Times*, January 13, 2017, A27.

“Diagnosis: opaque,” *The Economist*, November 3, 2019, 57-58.

August 31 – Supply and Demand

Reading:

Lowrey, Annie and Ron Nixon, “Severe Drought Seen as Driving Cost of Food Up,” *The New York Times*, July 26, 2012, A1, A4.

Mashal, Mjuib, Najim Rahim and Fahim Abel, “Afgan Farmers Clamor for Aid. Their Request: Gorge on Watermelons.” *The New York Times*, June 21, 2019, A4.

September 2, 5 & 7 – Applications of Supply and Demand

Reading: Fuller, Thomas, “California’s \$750,000 Question: How to Build Housing,” *The New York Times*, February 21, 2020, A19.

“Build, baby, build,” *The Economist*, August 11, 2018, 21-22.

“In a fix,” *The Economist*, January 11, 2020, 58-59.

“Field work,” *The Economist*, April 13, 2013, 43-44.

“The tables not yet turned,” *The Economist*, May 9, 2020, 13-15.

“Levying the land,” *The Economist*, June 29, 2013, 69.

“Credit where taxes are due,” *The Economist*, July 4, 2015, 64.

Mariani, John, “Gas tax cap comes off, but so what?” *Syracuse Post-Standard*, June 8, 2008, B1, B3.

II. Consumer Theory – Utility and the Derivation of the Demand Curve

September 9 – Consumer Behavior: An Introduction to the Concept of Utility

Reading: “The benevolence of self-interest,” *The Economist*, December 12, 1998, 80

Frank, Robert H., “Economic Scene: Of Hockey Players and Housing Prices,” *The New York Times*, October 27, 2005, C2.

“Economic focus: Stomach staples,” *The Economist*, March 26, 2011.

September 14– Consumer Behavior: Maximizing Utility

Reading: “Money where your mouth is,” *The Economist*, November 10, 2012, 41-42.

“Feeding expectations,” *The Economist*, February 22, 2014, 63.

September 16 & 21 – Applications of Consumer Theory

Reading: “Poor behaviour,” *The Economist*, December 6, 2014, 88.

“BOGOF bobbies,” *The Economist*, December 17, 2016, 50

“Fat is a fiscal-policy issue,” *The Economist*, October 7, 2017, 71.

“Reasonable doubt,” *The Economist*, October 14, 2017, 68.

Appelbaum, Binyamin “Behaviorists Show the U.S. How to Nudge,” *The New York Times*, September 30, 2015, A1 & A10.

Brooks, David “The Nudge Debate,” *The New York Times*, August 9, 2013, A17.

Porter, Eduardo, “Nudges Aren’t Enough to Solve Society’s Problems,” *The New York Times*, February 25, 2016, B1 & B4.

Jack, Kelsey, “Do Monthly Bills Undermine the Impact of Carbon Pricing?” Our 2 Cents Blog, July 10, 2019,

<http://emlab.msi.ucsb.edu/news/blog/do-monthly-bills-undermine-impact-carbon-pricing>.

Congdon, William J., Jeffrey R. Kling and Sendhil Mullainathan, 2011.

“Psychology and Economics,” chapter 2 in *Policy and Choice: Public Finance through the Lens of Behavioral Economics*, Brookings Institute Press, Washington, DC (optional).

Thaler, Richard H. 2018. “From Cashews to Nudges: The Evolution of Behavioral Economics,” *American Economic Review* 108(6): 1265-1287 (optional).

September 23 – Case # 1, Rice Imports in Pacifica

III. Producer Theory – Production, Costs, and the Derivation of the Supply Curve

September 28 – Production

Reading: no assigned reading

WEDNESDAY, SEPTEMBER 30 – QUIZ # 1

October 5 – The Costs of Production

Reading: “Land of the corporate giants,” *The Economist*, November 3, 2012, 76.

October 7 & 12 – The Behavior of Firms Under Perfect Competition: Profit Maximization and the Derivation of the Supply Curve

Reading: Hu, Winnie, “As Uber Ascends, Debt Demolishes Taxi Drivers,” *The New York Times*, September 11, 2017. A1.

Porter, Eduardo, “Job Licenses in Spotlight as Uber Rises,” *The New York Times*, January 28, 2015, B1, B5.

Porter, Eduardo, “A Stock Windfall for Titans, A Debacle for Everyone Else,” *The New York Times*, February 14, 2018, B1, B4.

Varian, Hal R., “Economic Scene: Why Old Media and Tom Cruise Should Worry About Cheaper Technology,” *The New York Times*, C3, October 19, 2006.

“Against the grain,” *The Economist*, May 21, 2016, 65-66.

“Rules for fools,” *The Economist*, May 14, 2011, 84.

IV. Putting it All Together – Perfect Competition

October 14 – Perfect Competition and Economic Welfare

Reading: Kenny, Charles, “Trickle Down Economics,” *Foreign Policy*, December 5, 2011.

Porter, Eduardo, “The Risks of Cheap Water,” *The New York Times*, October 15, 2014, B1, B6.

Sorkin, Aaron Ross, “Price Gouging Can Aid Victims? Why Some Economists Say Yes,” *The New York Times*, September 12, 2017, B1, B6.

“Signal failure,” *The Economist*, April 11, 2020, 56-57.

“One country, three systems,” *The Economist*, April 21, 2018, 38.

V. Market Power

October 19 & 21 – The Effects of Market Power: Monopolies

Reading: Leonhardt, David, “Big Business is Overcharging You,” *The New York Times*, November 11, 2019, A23.

Rosenthal, Elisabeth, “Reinventing Post Offices in a Digital World,” *The New York Times*, October 31, 2012, A9.

Porter, Eduardo, “When Public Outperforms Private in Services,” *The New York Times*, January 16, 2013, B1, B6.

Medina, Jennifer, “2-Year College, Squeezed, Sets 2-Tier Tuition,” *The New York Times*, March 30, 2012, A1, A20.

Medina, Jennifer, “Chancellor Asks California Community College to Hold off on 2-Tier Tuition Plan,” *The New York Times*, April 6, 2012, A11.

Borenstein, Severin “Would Non-Profit Utilities Cure What Ails California Electricity?” *Energy Institute Blog*, UC Berkeley, November 12, 2019,

<https://energyathaas.wordpress.com/2019/11/12/would-non-profit-utilities-cure-what-ails-california-electricity/>.

“Going postal,” *The Economist*, April 21, 2018, 59.

VI. Market Failures and the Role of the Government

October 26 – Externalities

Reading: Wald, Matthew L., “Fossil Fuels’ Hidden Cost Is in Billions, Study Says,” *The New York Times*, October 20, 2009, A16.

“The taxes of sin,” *The Economist*, July 28, 2018, 44-45.

“The lives of others,” *The Economist*, August 19, 2017, 58-59.

WEDNESDAY, OCTOBER 28 – QUIZ #2

November 2 – Public Goods

Reading: Hu, Winnie, “Is Your E-ZPass the key to Congestion Pricing in Manhattan?” *The New York Times*, March 22, 2018, A18.

Nixon, Ron, “Agreement on Interstate Repair Needs, but Not on How to Pay for Them,” *The New York Times*, April 4, 2014, A13.

Wolfers, Justin, “Unusual Flavor of G.O.P. Primary Illustrates a Famous Paradox,” *The New York Times*, May 10, 2016, A3.

November 4 – Case #2, “Profit” Maximization for Non-Profits

VII. Cost-Benefit Analysis

November 9, 11 & 16 – Cost-Benefit Analysis

Reading: Dudley, Susan *et al.* (2017), “Consumer’s Guide to Regulatory Impact Analysis: Ten Tips for Being an Informed Policymaker,” *Journal of Benefit-Cost Analysis*, 1-18.

Vining, Aidan R. and Weimer, David L., “The Application of Cost-Benefit Analysis to Social Policy,” *La Follette Policy Report*, 19(2), Spring 2010, pp. 1-4.

Frakt, Austin, “Fighting Over Chores? Spend Money, Save the Marriage,” *The New York Times: The Upshot Blog*, April 2, 2018, <https://www.nytimes.com/2018/04/02/upshot/fighting-over-chores-spend-some-money-save-the-marriage.html>.

Zhuang, Juzhong, Zhihong Liang, Tun Lin and Franklin De Guzman, “Theory and Practice in the Choice of Social Discount Rate for Cost-Benefit Analysis: A Survey,” Asian Development Bank Economics and Research Department Working Paper No. 94, May 2007.

Pear, Robert, “New Laws Now Evaluated by Job Creation,” *The New York Times*, January 3, 2012, A16.

Wald, Matthew L., “Energy Dept. Said to Err on Coal Project,” *The New York Times*, March 11, 2009.

November 18 – Case # 3 – Cost-Benefit Analysis

November 23 – Discussion and Final Thoughts

Reading: “Moral hazard,” *The Economist*, February 24, 2018, 66.

“Room with a view,” *The Economist*, January 12, 2013, 66.

“The voice of public choice,” *The Economist*, January 19, 2013, 76.

“Get off my cloud,” *The Economist*, January 14, 2017, 69.

Carroll, Aaron E., “Forbidden Topic in Health Policy Debate: Cost Effectiveness,” *The New York Times: The Upshot Blog*, December 16, 2014, <http://www.nytimes.com/2014/12/16/upshot/forbidden-topic-in-health-policy-debate-cost-effectiveness.html>.

FINAL EXAM: Date and time to be announced