

PAI 723 – Economics for Public Decisions

Preparing the Case Studies

The case studies describe real situations in which a public or private decision-maker must make a decision. As is most often the case in the real world, the decision maker will have a variety of information at his/her disposal. In spite of the fact that the amount of information may be voluminous, the information may be contradictory, some may be superfluous or it may still be incomplete. Your task, similar to that of the policymaker or her analyst, is to decide what information is pertinent.

Each case is self-contained and will not require any additional outside research to supplement the information provided. And while it is generally a good idea to be skeptical concerning the validity of information, you should assume that all the material provided is correct.

Each case study is different and there is no single approach that will always be effective. Nevertheless, there are some basic questions that are frequently useful to ask and attempt to answer. They include:

Who are the principal actors in the case? What are the long run goals of each of these actors? What are the short run incentives of each? How is each rewarded? Note that policy options will often have winners and losers. In such cases, simply saying the overall net effect is not sufficient. It is important to identify how winners and losers of a policy choice are each affected, as this will be an important consideration for decision makers.

What is the decision to be made? What are the options available? Are the apparent constraints really constraints or might some be loosened? Are the long run alternatives different from those in the short run? What are others likely to do in response to each alternative?

What are the advantages and disadvantages of each option? Which are quantifiable? What bounds can you put on those that are not quantifiable?

Can the problem be broken into several simpler problems? Unlike the problem sets, there is often no unique “right” answer nor is there necessarily a single approach that will always be effective at solving the problem at hand. At the same time, some problem solving approaches may be less valid than others. (Finally, since this is still an opportunity for you to apply economic *analysis*, we expect to see some analysis here and not just vague generalities!)

Case Write-ups (Policy Memos)

The policy memo should be typed (single-spaced is O.K.), with normal margins, etc. and *must not exceed two pages*. Additional pages may be devoted to charts, tables, graphs, etc. Tables can be useful to convey a set of numbers or results more effectively than listing the results sentence by sentence in the text (which should be avoided). However, be judicious in your use of tables. Do not simply present *every* result that you obtained. Rather, you should sort through your calculations and present only the data necessary to support your arguments. Don't expect

the reader to sort through your data and figure out what is important, and don't walk the reader through every step of your calculation. The reader of your memo is interested in results, *not* methodology. Moreover, while you should not repeat the data in the text, your text should refer to any tables and figures *and* explain to the reader how they should be interpreted.

Although you will each prepare your policy memo individually, you are encouraged to work with other members of the class to discuss and analyze the cases.

It is highly desirable that you learn soon how to write effective memos in a decision-making environment. Decision-makers generally already understand the context of the problem and the general issues. This means that a synopsis of the case is not necessary. If, however, understanding particular aspects of the situation are critical to understanding your recommendations, it may be appropriate to point these out. You should use your own judgement on which facts from the case warrant mention in your memo (particularly given the space constraint). For more general tips on effective professional writing, please see the article on the assignments page of the class web site.

The decision maker already understands the situation and the general issues; what she or he wants to know are your recommendation(s), the reasons for these recommendations, and how they should be implemented. It is, therefore, desirable to provide exactly that set of information in your memo and in that order (recommendations, reasons, implementation). Saving a recommendation for the end, the murder mystery approach, can force the reader to reread your memo in order to re-evaluate your argument. Similarly, when presenting your recommendations and arguments, lead with those that you consider to be the most important.

As you prepare your memos, it is useful to keep several common mistakes in mind in order to avoid them.

One is to make recommendations (as well as other statements) that are far too general. Recommendations should be as specific as possible. The more specific the recommendation, the easier it is to see both the advantages and disadvantages.

A **second** common mistake is to lose sight of what you are trying to accomplish. This can result in extraneous sentences and, sometimes, even paragraphs. All information included in the memo should contribute to the points you are trying to make.

A **third** common mistake is to make statements not support by facts in the case or other evidence. Unsupported assertions are often the vehicle by which your personal biases slip into the analysis.

Fourth, avoid language that a non-economist would not understand. Don't say: "The elasticity of gasoline demand is 0.5." Rather, try: "Economists find that for every 10% increase in price, consumers will purchase 5% less gasoline." Similarly, rather than saying that demand or supply will "shift", you can say that "demand will be higher, which in turn will lead to higher prices."

A **fifth** common error is to attempt to analyze the case without manipulating the data. In most cases there are calculations based on information presented in the case and the concepts presented in the text that can be extremely enlightening in evaluating the alternative recommendations. **Your analysis of a case is incomplete without the use of economic analysis.**