

**PPA 220A: APPLIED ECONOMIC ANALYSIS**

**MASTER'S PROGRAM IN PUBLIC POLICY AND ADMINISTRATION  
MASTER'S PROGRAM IN URBAN LAND DEVELOPMENT**

**CALIFORNIA STATE UNIVERSITY, SACRAMENTO**

**FALL 2008**

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Office: Room 3037, Tahoe Hall

Class Location: Wednesday, 6 - 8:50 p.m., 1011 Academic Resource Center (ARC)  
The classroom presentation is also available as a re-broadcast on WebCT two days after live meeting. **Everyone needs to attend (in person) the first class meeting on September 3.**

Office Phone: (916) 278-6304

Office Hours: Wednesday, 3:30 – 5:30 p.m.; and by appointment if necessary

Required Texts:

- (1) *EZ-101 Study Keys: Microeconomics*, 2002, Second Edition, J. Bruce Lindeman, Barron's, (denoted as "Micro"), available for purchase at Sac State Bookstore or on web at [Amazon.Com](http://Amazon.Com);
- (2) *Analyzing Policy: Choices, Conflicts, and Practices*, 2000, Michael C. Munger, Norton (denoted as "Policy"), available for purchase at Sac State Bookstore or on web at [Amazon.Com](http://Amazon.Com);
- (3) *The Economics of Public Issues*; Roger Miller, Daniel Benjamin, and Douglas North, 2008, 15<sup>th</sup> Edition, Pearson Education, (denoted as "Econ"), available for purchase at Sac State bookstore or on web at [Amazon.Com](http://Amazon.Com);
- (4) *A Practical Guide to Policy Analysis: The Eightfold Path to More Effective Problem Solving*, Eugene Bardach, Second Edition, CQ Press, (denoted as "Practical"), available for purchase at Sac State bookstore or on web at [Amazon.Com](http://Amazon.Com).

*On July 28, 2008, the total price for these books at Amazon.Com was \$84 for new copies and \$42 for used copies.*

### Course Objectives:

The Department of Public Policy and Administration has established four learning objectives for this course that are a part of a broader set of learning objectives for those who earn a MPPA or MULD. These fall under two categories and are:

#### - Critical Thinking

(1) Be able to explain and offer examples of the five reasons (lack of information, firms acting as price setters, externalities, public goods, and an inequitable distribution of income/wealth) that policy analysts provide for government intervention in a market economy.

(2) Develop the knowledge to understand and apply the “Kaldor/Hicks” approach to justifying the efficiency of government intervention and the interaction of the three sources of policy wisdom illustrated in “Munger’s Triangle.”

#### - Practical Applications

(3) Exhibit a basic understanding of the technical tools used in policy analysis and their application in actual policy concerns (CAM analysis, probability, time value of money, benefit/cost assessment, etc.)

(4) Understand basic microeconomic concepts such as opportunity cost, marginal decision making, supply and demand, elasticity, market equilibrium, industrial structure, etc. and the application of these to policy analysis using real world examples.

You will be given a survey at the end of the semester to get your opinion on how well this course has satisfied these learning goals. I will refer to these goals often throughout the course.

### Internet and WebCT Access:

I will post outlines on material covered in class and other course related material on WebCT. Information on WebCT can be found at <https://online.csus.edu/webct/entryPageIns.dowebct> . Please visit the site after you have secured a SacLink account number and password from Sac State. I will also correspond with you by e-mail through WebCT and ask you to read material from the Internet. Thus, access to the Internet and WebCT use is required for this class. If you do not have Internet access at work or home, the University's Library and its various computer labs offer access to students.

### Student Name Placards:

One of my weaknesses is the ability to remember the names of people. This is a real hindrance to facilitating discussion in class. Thus, I ask that each of you create a name placard (with material I will provide on first day of class), bring it to class each week, and place it in front of

you for each class meeting. I know this will help me greatly in learning your names. I hope it will assist you in a quicker learning of your classmates' names. The names of students I always get to know are those that visit me regularly in office hours and actively participate in class activities.

### Overview:

The purpose of this course is to expose you to the basic concepts and tools of microeconomics as they apply to public policy analysis. We will study how economists think about household decisions, business decisions, and government decisions. We spend much of our time understanding the role that government can play in altering these economic decisions for the betterment of society. The prerequisite for this course is the receipt of a B grade or above in a previous introductory (undergraduate) course in microeconomics (ECON1B in the California State University or the California Community College Systems). Even though this is the official requirement (and you should not be in the class unless you met it), I will review basic microeconomic principles throughout the course before assuming that you remember them. **If your microeconomics is a bit rusty, EZ 101 Study Keys: Microeconomics is the appropriate reference. I encourage you to review this text before class starts.**

Microeconomics offers many insights into understanding how business, government, and people interact. Some of the most serious challenges that individuals and society face are economic based. An understanding of economics is therefore part of deriving solutions to these challenges. As future public policy gurus, an understanding of the economic principles taught in this course is essential to your ability to offer good public policy analysis and advice.

A goal of mine has always been to try to improve the way that economics is taught to university students. I would consider myself a success if I could get you to learn some economics, appreciate its value to the career choice you have made, and to have a **part** of your brain think like an economist. Note that I emphasize only a part of your brain. Good policy analysts have to also consider relevant political and administrative issues, and the social/equity ramifications of proposed public policy. The development of these other parts of your brain will be largely accomplished through the other courses you take in this program, but at the same time not fully ignored here.

I encourage you to share with me, even before teaching evaluations are given, your opinion on any of my teaching methods and offer constructive suggestions on how to improve them. I truly appreciate such input and use it to try and continually improve the way I teach this course. To help in achieving this goal, I ask in week six (October 8) of the course that you complete the teaching evaluation instrument that you will again fill out at the end of the course. Using the responses, I can consider adopting my teaching style to address your concerns in the remaining portion of the course.

PPA 220A consists of one 165 minute meeting a week. Each week you should also plan on devoting at least three hours of study outside of the classroom to this course. A 15 minute break will be given in the middle of each class. If I go past 7:30 p.m. without giving you this break, please remind me that it is due.

This course uses a distance education format. As of now, it is the only course taught in this manner in the MPPA or MULD Program. As previous students have pointed out to me, there are plusses and minuses to using this format. A big plus is that all class sessions will be recorded and allow you the option to watch them at a later date. Since this is available, you need not attend all class sessions and can instead choose to view some of them through WebCT. To some, the downside of this is that there are cameras in the classroom and microphones where you sit. So others listening outside the classroom can hear you, you will need to turn on these microphones before speaking. Please do this for the benefit of those watching the recorded session. They cannot hear your comments if your microphone is off. Considering the requests of students in the past, I will ask the camera operator to not focus on students when you are speaking into the microphone.

**The official requirement is that you attend a minimum of eight of the 15 scheduled classes.** To measure your attendance, and prepare you for participation in class discussions, I ask that you submit a typed, double-spaced, two-page maximum answer to the numbered discussion question (that corresponds to the first letter of your last name) that are listed below. These can only be turned in by you on the night of the meeting you attend. I will look them over and return them to you by the next class meeting with a grade of plus, check, or minus assigned based upon not just a “right or wrong” answer, but also the writing style (grammar, punctuation, organization, etc.), thought, effort, and thoroughness that I judge you put into your answer. **Since you are only required to attend eight class meetings, your overall grade on these assignments will be based on the highest eight grades you receive. You may turn in one of these write ups at our first class meeting (September 3).** Throughout the semester, please feel free to turn in more than eight. I will only count your best eight grades.

**If you miss a Wednesday night class in person, you must participate in a WebCT chat session that will be held from 7 to 8 p.m. on the Tuesday after the session you missed.** I will record the names of all who participate in these sessions and assign a minus, check, or plus on the quality of your participation. I will use this session to primarily cover the discussion questions from the previous week’s meeting, but time will also be left to answer any general questions you may have from the meeting.

If there are concepts or ideas that were covered in a Wednesday night session that you did not understand, it is important to your overall success that you get these misunderstandings resolved before the next time we meet. You can do this by talking to your fellow classmates (I encourage you to form study groups or electronic study networks), visiting me in my Wednesday office hours, sending an e-mail question to me at [rwassme@csus.edu](mailto:rwassme@csus.edu) (please do not send by WebCT because I check less often), or phoning me at 278-6304. My promise to you is that if I am not in my office, I will respond to your Monday through Friday e-mail or phone call within 24 hours.

There will also be two homework assignments during the semester that must be turned into me through WebCT in electronic form. These will be given out on Thursday by noon, and must be returned by the following Thursday at noon.

Questions, comments, and discussion about material assigned for a Wednesday night class are always encouraged during that class. In office hours I am pleased to discuss a suggestion on how

the class is taught, economics in general, the MPPA or MULD programs, or your career plans. To insure an adequate participation grade, please plan on stopping by to visit a few times during office hours.

Students will need to come well prepared to class in the form of completing all reading assignments, looking over my PowerPoint notes, formulating answers to the discussion questions poised each week (you should think about all of the questions asked and not just the one assigned to you that week), and being prepared to actively participate in the class discussion. I will not hesitate to call on students who chose to not voluntarily participate.

Examination Procedure:

Material for the midterm and final exams will be taken out of assigned reading, class time, and homework. I will provide a sample midterm exam early in the semester. If you have an illness or emergency, if at all possible, I expect to be notified before the midterm exam takes place. If you fail to show up for this exam without contacting me, or if you cannot provide written documentation of why you missed, you will receive a zero.

Midterm: The first 90 minutes of class on October 22 will be devoted to taking an in-class midterm exam. More details and example of previous midterm will follow in class.

Final: I will give out a take-home final exam in class (December 3). This is two weeks before it is due (December 17). This exam will be structured as a group project in which a group of four or five students will work together to answer a series of questions. Though cooperation within groups is encouraged, there can be no cooperation across groups. More details will follow in class.

Grading Procedure:

Exam grades will be calculated using the following formula:

<b><u>Percent Correct</u></b>	<b><u>Letter Grade</u></b>	<b><u>Number Grade</u></b>
100-94	A+	4.3
93-89	A	4.0
88-84	A-	3.7
83-79	B+	3.3
78-74	B	3.0
73-69	B-	2.7
68-64	C+	2.3
63-59	C	2.0
58-54	C-	1.7

53-40	D	1.0
<40	F	0.0

A number grade will be assigned to everything you do. Your final grade will be calculated based on these number grades. Anything above a B- in the course is a passing grade for credit towards your MPPA or MULD. Your midterm exam grade accounts for 20 percent of your course grade. Your final exam grade accounts for 20 percent of your course grade. The average grade earned on the eight weekly-required answers to a discussion question and alternative chat sessions is worth 25 percent, and the average grade on your two homework assignments account for 25 percent of your final grade. Classroom and office hour participation makes up the remaining 10 percent of your final grade.

**University policy for dropping this course will be followed. You must complete both the midterm and final exam to receive a passing grade.**

The following schedule lists the topics covered and the assigned reading that accompanies them. I reserve the right to make minor changes and additions to the schedule. Underlined material is hyper linked and is obtained by clicking on it from your web browser. The format of the schedule is that column 1 contains the topic, column 2 contains the source, and column 3 contains the specific location within the source. The discussion questions are in italics below each topic. **Only submit and answer to the question that corresponds to the first letter of your last name, but think about answers to all questions as you are doing the reading related to it.**

You need to also print out and review the PowerPoint slides I have prepared for each week. They are on WebCT and will be available (at the latest), by Monday afternoon before the following Wednesday's meeting.

Schedule:

**Week 1 (September 3)**

“Overview of Course”

Syllabus

*(1) Last Name A-E: Which of the four course objectives (listed on page 2 of this syllabus) do you feel that you have the most knowledge of prior to taking this course? Which of the four do you feel that this course will offer you the most “value added”?*

“Get Your Priorities Right”

[WSJ Opinion Page](#)

*(2) Last Name F-K: Describe the economic approach of “rational prioritization” to solving the World’s public policy challenges?*

“Policy Analysis as a Profession”

Policy

Chapter 1





(4) Last Name T-Z: Illustrate the concept of “consumer surplus” on a graph, describe what it is in words, and use a real-world situation to describe how you have gained it in a past purchase.

“Sex, Booze, and Drugs”

Econ

Chapter 5

(5) Last Name A-E: The markets for prostitution in Nevada and New Jersey have two important differences: (1) Prostitutes in New Jersey face higher costs because of government efforts to prosecute them, and (2) customers in New Jersey face higher risks of contracting diseases from prostitutes because the illegal nature of business makes reliable information about product quality much more costly to obtain. Given these facts, in which state would you expect the price of prostitution services to be higher? Which state would have the higher amount of services consumed (adjusted for population differences)? Explain.

### **Week 5 (October 1)**

“The Firm: Costs”

Micro

Theme 7

(2) Last Name A-H: Why are a firm’s MC, ATC, and AVC cost curves “U” shaped (or shaped like a valley)? Offer an example of how this occurs in a production process.

“A Benchmark for Performance: The Market”

Policy

Chapter 3

(1) Last Name I-P: Would a Democrat in the California Legislature be more likely to be a believer in Pigou or Coase? What about a Republican?

“Why Are Women Paid Less?”

Econ

Chapter 11

(3) Last Name Q-Z: Why do you think we have laws that prohibit discrimination in pay based on sex or race, but permit employers to discriminate in pay based education or experience?

### **Week 6 (October 8)**

#### **Preliminary teaching evaluation done at end of class**

“Profit Maximization and Perfect Competition”

Micro

Theme 8

(2) Last Name H-M: What characteristics are essential for a product market to be considered “perfectly competitive”? Describe the process that causes such a firm to not earn positive economic profits in the “long run”?

“Slave Redemption in Sudan”

Econ

Chapter 8

(3) Last Name N-Z: Is there anything in the historical British experience with the slave trade that suggests how the international community of today could reduce slavery in Sudan?

“Bankrupt Landlords”

Econ

Chapter 10

(3) Last Name N-Z: Who, other than the owners of rental units, loses as a result of rent controls? Who gains from rent controls? What effect would the imposition of rent controls have on the market price of an existing single-family house? What effect would rent controls have on the value of vacant land?

### **Week 7 (October 15)**

“Imperfect Competition”

Micro

Theme 9

(1) Last Name A-F: Why is the outcome of a monopoly not desirable from society’s perspective? In your opinion, should the government attempt to regulate a monopoly outcome and if so, how?

(2) Last Name M-R: How do U.S. firms in an oligopolistic market structure collude with each other if it is illegal under U.S. antitrust policy?

“Evaluation and Market Failure: Criteria for Intervention”

Policy

Chapter 4

(1) Last Name G-L: Would it be practical to insist that all public policies pass the “Pareto Criterion”? Do you have any concerns with only using the “Kaldor-Hicks Compensation Principle” to evaluate the desirability of a public policy?

(2) Last Name S-Z: Pick a form of “market failure”, describe what it is in general technical terms and then pick a real-world occurrence and describe how it represents this form of market failure? What should the government do about this?

### **Week 8 (October 22)**

#### **Midterm Given First 90 Minutes of Class**

“The Effects of the Minimum Wage”

Econ

Chapter 12

(3) Last Name N-Z: Are teenagers better off when a higher minimum wage enables some to earn higher wages but causes others to lose their jobs?

“Monopsony and Competition in Health Care”

Econ

Chapter 15

(3) Last Name A-M: People between the ages of 18 and 35 are substantially overrepresented among those without health insurance. Suggest some reasons why this is the case? Does this situation make you more or less concerned about the incidence of uninsured persons than you would be if people aged 45 to 64 were overrepresented among the uninsured?

### **Week 9 (October 29)**

“Nonmarket Allocation...”

Micro

Theme 11

(1) Last Name A-F: Making sure you stay true to the formal definition, describe to a layperson what a “positive and negative externality” is (use some real-world examples in your explanation). Also provide an argument for the reason for government intervention in the market when this occurs.

(2) Last Name G-L: Making sure you stay true to the formal definition, describe to a layperson what a “public good” is (use some real-world examples in your explanation). Also provide an argument for the reason for government intervention in the market when this occurs.

“Experts and Advocacy: The Limits of Policy...” Policy Chapter 5

(3) Last Name R-Z: Discuss the plusses and minuses of using a technical command economy to solve the “problems” of the market? Is there another alternative besides just pure market capitalism or pure command socialism?

(4) Last Name M-Q: How would you go about investigating whether “regulatory capture” is occurring in oversight committees and boards appointed by the California Governor?

### **Week 10 (November 5)**

**Assignment 2 given out at noon on Thursday, November 6 on WebCT - return by noon on Thursday, November 13 through WebCT.**

“Democratic Decisions and Government Failure: The Limits of Choice by the People” Policy Chapter 6

(1) Last Name A-D: How do we decide when a public policy is too “collectively coercive”?

(2) Last Name E-I: Are the preferences of most people for public policy outcomes “single peaked”? Does your answer imply any problems for the voting mechanism used to determine the public policy?

(3) Last Name J-M: Which of the four decision rules would you prefer to use to decide the size of a community swimming pool built in your local public park? Explain why.

“Big Oil, Big Oil Prices?” Econ Chapter 16

(4) Last Name N-Q: The price at the pump for gasoline, whether it is \$4 or \$5 a gallon, is certainly higher than it was three years ago. Nonetheless, not all Americans plan to switch to small, lightweight cars that consume less gas, use more mass transit, or move closer to where they work. Offer some reasons for this.

“College Costs” Econ Chapter 19

(5) Last Name R-Z: Describe the similarities between the health-care sector and its problems and the higher-education sector and its problems. Why do these two sectors in our economy have similar problems?

### **Week 11 (November 12)**

“The Welfare Economics Paradigm”

Policy

Chapter 7

(1) Last Name A-K: How does the “Lindahl Equilibrium” diagram resolve the issue of different types of people desiring different amount of a public good if priced the same to all of them? Is this solution relevant in the real world? What is another way of resolving this dilemma?

(2) Last Name L-O: Is California’s tax system best considered “progressive,” “regressive,” or “proportional”?

“Taxation and Tax Incidence”

Micro

Chapters 108 and 109

(3) Last Name M-R: Offer an example of California Excise Tax. Do you think this tax is progressive or regressive? Describe California’s personal income tax. Is it progressive or regressive?

(4) Last Name S-Z: Describe the mechanism that causes someone to actually pay a tax who is different from who the law says pays the tax.

### **Week 12 (November 21)**

“Choice of Regulatory Form: Efficiency, Equity, or Politics?”

Policy

Chapter 8

(1) Last Name A-F: Pick a current CA public policy issue and dissect it based upon the three sides of Munger’s triangle (market-politics, experts-politics, and market-experts). That is, how and what are the elements of each of these triangle’s sides in this policy issue.

(4) Last Name G-O: Take the current Social Security reform debate and dissect it based upon the three sides of Munger’s triangle (market-politics, experts-politics, and market-experts). That is, how and what are the elements of each of these triangle’s sides in this policy issue.

“Killer Cars and the Rise of the SUV”

Econ

Chapter 22

(3) Last Name P-Z: Suppose that Congress really knows what the best average fuel economy for automobiles is. How would you define “best? Do the costs and benefits of achieving a particular level of fuel economy play a role in determining that definition?

### **Week 13 (November 28)**

**Entire Session Held on WebCT Chat (Details Forthcoming)**

“Discounting I: Expected Values, Probability and Risk”      Policy      Chapter 9 (pp. 280–295, 307–318)

*(1) Last Name A-F: When deciding public policy do you feel that policymakers should be “risk accepting,” “risk neutral,” or “risk averting”? Do you ever pursue any activities that exhibit risk accepting behavior?*

*(2) Last Name G-L: Draw up a hypothetical decision analysis tree that represents a decision you had to make recently in your personal or professional life.*

“Crime and Punishment”      Econ      Chapter 23

*(2) Last Name M-Z: In recent years, the penalty for selling illegal drugs has been increased sharply. How does that affect the incentive to sell drugs? For the people who decide to sell drugs anyway, what do the higher penalties for dealing do to their incentive to commit other crimes (such as murder) while they are engaged in selling drugs?*

***To receive credit for answering these questions, e-mail to me by WebCT before the chat begins and you must participate in the chat.***

### **Week 14 (December 3)**

#### **Final Exam Questions Distributed**

“Discounting II: Time”      Policy      Chapter 10 (pp. 322–336, 342–347)

*(1) Last Name A-G: If you go to a bank to borrow money for a year they are going to want more than what you borrowed to be paid back at the end of the year. What are the three reasons that they want more than what you borrowed? Are all three of these reasons present when a government policymaker asks to borrow your money now (in the form of tax payments) and pay you back later with a policy outcome that you desire?*

*(2) Last Name H-O: In policy analysis, is the value of a future payment always worth less than a current payment?*

“Heavenly Highway”      Econ      Chapter 25

*(3) Last Name P-S: Can you think of a way to implement HOT lanes and other forms of congestion pricing more widely and yet insure access by low-income individuals to roads covered by such plans?*

“Smog Merchants”      Econ      Chapter 28

*(4) Last Name T-Z: Who implicitly has property rights to the air when the EPA sells SO<sub>2</sub> permits? Does your answer depend on who gets the revenue raised by the sale?*

**Week 15 (December 10)**

**“Cost-Benefit Analysis”**

**Policy**

**Chapter 11**

*(1) Last Name A-H: Answer question 1 on p. 379 in Munger.*

*(1) Last Name Q-Z: If we built a pedestrian bridge at every street corner, we could prevent most street-crossing deaths. What does it mean in terms of the value of human life that few street corners have such bridges?*

**“Greenhouse Economics”**

**Econ**

**Chapter 29**

*(4) Last Name I-P: The policy approach to greenhouse gases will almost certainly involve limits on emissions rather than taxes on emissions. Can you suggest why limits rather than taxes are likely to be used?*

**Week 16 (December 19)**

**Final Exam Due**