

PPA 220A: APPLIED ECONOMIC ANALYSIS

**MASTER'S PROGRAM IN PUBLIC POLICY AND ADMINISTRATION
SACRAMENTO STATE UNIVERSITY**

FALL 2005

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Office: Room 3037, Tahoe Hall

Class Location: Wednesday, 6 - 8:50 p.m., 135 Calveras Hall; also re-broadcast on Saturdays on various cable channels (Comcast 15 -Sacramento, Charter 14 - West Sacramento, Charter 21 - Auburn, Volcano 60/78 - N. CA, Comcast 15 - Roseville) and on the Internet (details forthcoming).

Office Phone: (916) 278-6304

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

Required Texts:

(1) *Analyzing Policy: Choices, Conflicts, and Practices*, Michael C. Munger, Norton (denoted as “Policy”), available for purchase at CSUS bookstore or on web at Amazon.Com;

(2) *Microeconomics: The Easy Way*, Walter J. Wessels, Barrons Publishing (denoted as “Micro”), available for purchase at CSUS bookstore or on web at Amazon.Com;

(3) *The Economics of Public Issues*, Roger Miller *et al.*, Addison-Wesley (denoted as “Public”), 14th Edition, available for purchase at CSUS bookstore or on web at Amazon.Com;

(4) *Freakonomics: A Rogue Economist Explores the Hidden Side of Everything*, Steven D. Levitt and Stephen J. Dubner, Morrow (denoted as “Freak”), available for purchase at CSUS bookstore or on web at Amazon.Com.

Course Objectives:

The Department of Public Policy and Administration has established four broad objectives for this course that are a part of the entire set of learning objectives designated for those who receive a MPPA. These fall under two categories and are:

- Critical Thinking

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

(2) Develop the knowledge to defend the basic Kaldor/Hicks approach to justifying the efficiency of government intervention through benefit/cost assessment.

- Practical Applications

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

(4) Understand basic microeconomic concepts such as opportunity cost, supply and demand, elasticity, market equilibrium, industrial structure, etc. and their application 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 Access and WebCT:

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/>. Please visit the site after you have secured a SacLink account number and password from CSUS. I will also correspond with you by e-mail through WebCT. Sometimes you will also be asked to read things off 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, access to it is provided to students at the university's library or various computer labs. We will further discuss WebCT use on the first night of class.

Student Photos:

One of my downfalls is the ability to remember the names of people. This is a real hindrance to facilitating discussion in class. Thus I have decided this semester to try and do something proactive to enable my name-learning process. I ask that each of us, including myself, subject ourselves to having a digital picture taken on the first night of class at break that I will then post on our WebCT site with identifying names attached. I hope this also assists you in a quicker learning of your classmates' names.

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, government decisions, and benefit/cost analysis.

The prerequisite for this course is the receipt of a B grade or above in a previous introductory (undergraduate) course in microeconomics (ECON1B in CSU or California junior college system). Even though this is the official requirement, I will review basic microeconomic principles before assuming that you remember them. If your microeconomics is a bit rusty, *Microeconomics: The Easy Way* 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 problems that individuals and society face are economic based. An understanding of economics is therefore part of deriving solutions to these problems. 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.

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. Notice 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 will ask that in week four of the course that you complete the teaching evaluation instrument that you will again fill out at the end of the course. Using this, I can try and adopt my teaching style to address your concerns before 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 is taught in a distance education format. As of now, it is the only course taught in this manner in the MPPA Program. As previous students have pointed out to me, there are plusses and minuses using this format. The big plus is that all class sessions will be recorded and allow you the option to watch at a latter date. Since this is available, you need not attend all class sessions and can instead chose to view some of them on the Internet or TV. To some, the downside of this is there are cameras in the classroom and microphones were 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.

My understanding is that the classroom only has room for around 30 students. I anticipate that our enrollment will be greater than this. Therefore, though I would prefer that all students attend all class meetings, 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 one of the numbered discussion questions that are listed below for each of our meetings. 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 assigned based upon not just a “right or wrong” answer, but 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. One of these write ups can be turned in at our first class meeting (August 31).** Throughout the semester, please feel free to turn in more than eight. I will only count your best eight grades.

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 in the course that you get these misunderstandings resolved before the next time that we meet. You can do this by talking to your fellow classmates (I would 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 (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 call within 24 hours.

There will also be four relatively short homework assignments during the semester that must be turned into me through WebCT in electronic form. These will be given out on Thursday morning, and must be returned by the following Wednesday at noon. I will return them to you electronically by the following Tuesday at noon with my comments and grades attached. Questions, comments, and discussion about material assigned for a Wednesday night class are always encouraged during that class. Other questions will be answered in the manner discussed above. Office hours can also be used to handle a suggestion on how the class is taught, a general discussion of economics, the Public Policy and Administration Master’s Program, or your career plans. Please plan on stopping by to visit me at least once during my office hours.

Previously I have devoted more class time to PowerPoint lectures than I plan on doing this semester. Many students objected to PowerPoint based lectures and instead wanted a more student-based discussion of the material. I have changed the structure of the course to try and accommodate this suggestion and am pleased to do so. But in return, 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, and actively participating in the discussion. I will 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 19 will be devoted to taking an in-class midterm exam. More details will follow in class.

Final: A take-home final exam will be given out in class (November 30). This is two weeks before it is due (December 14). This exam will be structured as a group project in which a small 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:

<u>Percent Correct</u>	<u>Letter Grade</u>	<u>Number Grade</u>
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 considered a passing grade for credit towards your MPPA.

Your midterm exam grade accounts for 25 percent of your final grade. Your final exam grade accounts for 25 percent of your final grade. The average grade earned on the 8 weekly-required answers to a discussion question is 15 percent. The average grade on your four homework assignments also account for 15 percent of your final grade. Classroom participation makes up the remaining 20 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.

Schedule:

The following schedule lists the major topics covered and the assigned reading that accompanies them. I reserve the right to make minor changes and additions to the following schedule. Underlined material is hyper linked and can be had 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 in the source. The discussion questions are in italics below each topic.

You need to also print out and review the PowerPoint slides I have prepared for each week. They are available on WebCT.

Week 1 (August 31)

“Overview of Course”

Syllabus

(1) Which of the four course objectives do you feel that you have the most knowledge in before taking course? For which of the four do you feel that this course will offer you the most “value added”?

“Policy Analysis as a Profession”

Policy

Chapter 5

(2) Why is policy analysis like “unloosening the Gordian Knot”?

(3) How would you work through the steps of performing a CAM Analysis for a major policy problem that CA currently faces?

“Criterion/Alternative Matrix”

[CIWMB Tire Study](#) pages 78 – 102

(4) How does a qualitative CAM (Table 8) differ from a quantitative CAM (Table 9)?

“Exploring Economics”

Micro

Chapter 1

(5) Offer your own brief definition of what the study of economics is all about.

“Scarcity and Choice”

Micro

Chapter 2

(6) Describe an example from your own life where the use of marginal analysis would assist in making a decision?

“Killer Airbags”

Public

Chapter 1

(7) What are the six economic/public policy principles that can be derived from U.S. airbag policy?

Week 2 (September 7)

“Deciding How to Decide”

Policy

Chapter 2

(1) Pick a side of Munger’s Policy Triangle (Figure 2.1) and describe how a specific form of policy is worked out among two of three sources of wisdom and accountability he describes?

(2) Should the right of someone to marry someone of the same gender be an “individual” and “private” decision?

“Economic Way of Thinking”

Micro

Chapter 3

(3) Use the “key insights from economics” discussed in this chapter to describe the expected effects on the number of millionaires in California if the state doubled the income tax on them to balance the budget? What about if instead aid to the poor was cut as an alternative to balance the budget?

“Flying the Friendly Skies”

Public

Chapter 3

(4) Is it possible to be too safe? Explain what is meant by “too safe”?

“The Hidden Side of Everything”

Freak

Introduction

(5) Do you share the view of economists that “incentives are the cornerstone of modern life”?

(6) Offer an example of a person or a profession that uses information only they know to achieve an advantage over others.

Week 3 (September 14)

“Demand and Supply”

Micro

Chapter 4

(1) Explain the “Diamonds and Water Paradox”?

(2) If market price is above the equilibrium price, explain the process that causes it to move to the equilibrium price. What about a market price below the equilibrium price?

“Elasticity”

Micro

Chapter 5

“Between Competition and Monopoly”

Micro

Chapter 11

(2) Should the “excess capacity” of monopolistic competition be a concern addressed by public policy?

(3) How do U.S. firms in an oligopoly market structure collude with each other if it is illegal under U.S. antitrust policy?

“Give Me MP3 or Give Me Death”

Micro

Chapter 15

(4) If you were the economist for Universal Music Group, how would you have presented the argument in favor of the firm’s decision to lower price by 30 percent in 2003?

“Contracts, Combinations, and Conspiracies”

Micro

Chapter 16

(5) Why are all cartels inherently unstable?

“Coffee, Tea, or Tuition Free”

Micro

Chapter 17

(6) What factors other than incomes are likely to affect willingness to pay? How will differences in these factors among its customers affect the likelihood that a firm will engage in price discrimination?

HW Assignment 2 Posted October 6

Week 7 (October 12)

“Evaluation and Market Failure: Criteria for Intervention”

Policy

Chapter 4

(1) 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) 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?

Review Session for Midterm

Week 8 (October 19)

Midterm Exam

“Public Choice and Externalities”

Micro

Chapter 13

(1) Discuss how the solution to the “tragedy of the commons” would differ if offered by Pigou or Coase?

“Raising Less Corn and More Hell” Public Chapter 20

(2) What group would be the major beneficiaries of the elimination of farm subsidies in America?

“Killer Cars and the Rise of the SUV” Public Chapter 21

(3) Suppose Congress really knows what the best average fuel economy for automobiles is. How do you think “best” should be defined? Do costs and benefits enter into this definition?

Week 9 (October 26)

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

(1) 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?

(2) How would go about investigating whether “regulatory capture” is occurring in oversight committees and boards appointed by the California Governor?

“Frankenfoods” Public Chapter 24

(3) How do the potential (environmental and economic) costs of transgenic crops differ from most of the traditional costs associated with agriculture like tractors and labor?

“Trashman Cometh” Public Chapter 25

(4) Why do many communities mandate recycling? Is it possible to induce people to recycle more without requiring that all residents recycle?

“What Do Schoolteachers and Sumo Wrestlers Have in Common” Freak Chapter 1

(5) Will all people “cheat” if they see that they can gain an advantage from it? What stops people from cheating? How much effort should public policy devote to stop people and firms from “cheating”?

Week 10 (November 2)

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

(1) How do we decide when a public policy is too “collectively coercive”?

(2) 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) Which of the four decision rules would you prefer to use to decide the size of a community swimming pool to be built in your local public park? Explain why.

“Bye, Bye, Bison”

Public

Chapter 26

(4) Has there ever been a problem with the extinction of dogs, cats, or cattle? Why not?

“How is the Klu Klux Klan like a Group of Real Estate Agents?”

Freak

Chapter 2

(5) Answer the question posed in this reading’s title?

(6) Why does the value of a new car depreciate so much when you drive it off the lot? Why is information such a valuable commodity in a market economy?

Week 11 (November 9)

“The Welfare Economics Paradigm”

Policy

Chapter 7

(1) What does a family of “indifference curves” represent? How can they be used to derive a demand curve?

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

(3) Is California’s tax system best considered “progressive”, “regressive”, or “proportional”?

“Smog Merchants”

Public

Chapter 27

(4) Does marketing the “right” to pollute mean that we are allowing too much destruction of our environment?

“Why Do Drug Dealers Still Live With Their Moms?”

Freak

Chapter 3

(5) What does economics have to do with the reason that a “pretty Wisconsin farm girl moves to Hollywood”, “a high school quarterback wakes up at 5 a.m to lift weights”, and anyone chooses the “most dangerous job” in the world – crack dealer? What incentive and information issues are relevant to your answer?

HW Assignment 3 Posted November 10

Week 12 (November 16)

“Choice of Regulatory Form: Efficiency, Policy Chapter 8
Equity, or Politics?”

(1) 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.

(2) 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.

“Antitrust and Regulation of Markets” Micro Chapter 12

(3) What issues must be considered when deciding how to regulate a “natural monopoly”?

“Free Trade, Less Trade, or No Trade?” Public Chapter 29

(4) Explain the economic concept of “comparative advantage” and how it is important to producing “gains from trade”?

“The \$750,000 Steelworker” Public Chapter 30

(5) What motivates politicians to impose tariffs, quotas, and other trade restrictions?

Week 13 (November 23)

No New Material
Review Session (Come Prepared With Questions)

Week 14 (November 30)

Final Exam Questions Handed Out

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

(1) 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) Draw up a hypothetical decision analysis tree that represents a decision you had to make recently in your personal or professional life.

“Discounting II: Time”

Policy

Chapter 10 (pp. 322 – 336, 342 – 347)

(3) 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?

(4) In policy analysis, is the value of a future payment always worth less than a current payment?

“Where Have All the Criminals Gone?”

Freak

Chapter 4

(5) What is your opinion of the argument that one reason not to repeal Roe v. Wade is that it may result in an increase in crime in the future? Can an argument like this even be made in the court of public opinion?

HW Assignment 4 Posted November 31

Week 15 (December 7)

“Cost-Benefit Analysis”

Public

Chapter 11

(1) How is the concept of “Kaldor-Hicks Efficiency” inherent to the acceptance of using cost-benefit analysis as a public policy tool?

(2) Describe a public policy that could be evaluated using cost-benefit analysis that would require the use of probabilities? How would you go about doing this?

“What Makes a Perfect Parent”

Freak

Chapter 5

(3) How do probabilities enter into being a good parent? Are there any policy lessons from the “eight things that make a child do better in school and eight that don’t” for CA’s K-12 public education system?

“Perfect Parenting, Part II”

Freak

Chapter 6

(4) If you have a really bad name, should you change it?

Week 16 (December 14)

Final Exam Due