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 2007

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Class Location: Wednesday, 6 - 8:50 p.m., 123 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). Everyone needs to attend (in person) the first class meeting on September 5.

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, 1992 (try to buy this edition in used form on Amazon – it is much cheaper), Bruce Lindeman (denoted as “Micro”), Barron’s, available for purchase at Amazon.Com;

(2) Analyzing Policy: Choices, Conflicts, and Practices, 2000, Michael C. Munger, Norton (denoted as “Policy”), available for purchase at CSUS bookstore or on web at Amazon.Com;

(3) Economics by Example, David A. Anderson, 2007, Worth, (denoted as “Econ”), available for purchase at CSUS bookstore or on web at Amazon.Com;


On July 12, 2007 the total price for these books at Amazon.Com was $108 for new copies.
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 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 that policy analysts offer for government intervention in a market economy (lack of information, firms acting as price setters, externalities, public goods, and an inequitable distribution of income/wealth).
  (2) Develop the knowledge to understand the “Kaldor/Hicks” approach to justifying the efficiency of government intervention and the interaction of the three sources of wisdom illustrated in “Munger’s Triangle.”

- Practical Applications
  (3) Have a basic understanding of some 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 there 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://online6.csus.edu/webct/entryPageIns.dowebct. 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. You will also be asked to read things 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, 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 weaknesses is the ability to remember the names of people. This is a real hindrance to facilitating discussion in class. Thus I did something last year to enable my name-learning process that I will continue this year. I ask that each of us, including myself, subject ourselves to
having a digital picture taken on the first night of class at break. I will then post this 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, and government decisions, and the role that government can have 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 CSU or the California community college system). Even though this is the official requirement, 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 that in week five (October 3) 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 is taught in 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 recorded and allow you the option to watch them 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 that 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. 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 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 (September 5). 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 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 (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. 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. 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 me at least once during my 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
posed 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 24 will be devoted to taking an in-class midterm exam. More details and example of previous midterm will follow in class.

Final: A take-home final exam will be given out in class (December 5). This is two weeks before it is due (December 19). 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:

<table>
<thead>
<tr>
<th>Percent Correct</th>
<th>Letter Grade</th>
<th>Number Grade</th>
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<tbody>
<tr>
<td>100-94</td>
<td>A+</td>
<td>4.3</td>
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<tr>
<td>93-89</td>
<td>A</td>
<td>4.0</td>
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<td>88-84</td>
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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 25 percent of your course grade. Your final exam grade accounts for 20 percent of your course grade. The average grade earned on the 8 weekly-required answers to a discussion question is worth 20 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 at noon before the following Wednesday’s meeting.

Schedule:

**Week 1 (September 5)**

“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

(3) Last Name L-P: Why is policy analysis like “unloosening a Gordian Knot”?

“The Eightfold Path” Practical Part I

(4) Last Name Q-Z: Pick any of the eight steps described by Bardach and write a description to a layperson about what it is and how to accomplish the desired goal in your chosen step.
**Week 2 (September 12)**


1. Last Name Q-Z: How does a qualitative CAM (Table 8) differ from a quantitative CAM (Table 9)?

“Intro to Microeconomics” Micro Theme 1
“Theory and Models in Economics” Micro Theme 2

2. Last Name A-E: In your own words, describe the five listed objectives of economic policy. In this description use a current California public policy concern to illustrate how these objectives come into play in formulating a state or local government policy to address this concern.

“What’s to Love about Economics?” Econ Chapter 1

3. Last Name L-P: Is it rational for some people to end their formal education with high school degrees, some to finish with college degrees, and some to obtain graduate degrees? Beyond the ability to pay tuition, what are some other reasons why different people stay in school for different lengths of time? How might the non-monetary opportunity costs of college differ among individuals? How might the benefits differ?

“Why Did the Cashier Let Biff…?” Econ Chapter 2

4. Last Name F-K: How might incentives encourage volunteer work and community service?

**Week 3 (September 19)**

“Deciding How to Decide” Policy Chapter 2

1. Last Name F-K: Pick a side of Munger’s Policy Triangle (Figure 2.1) and describe to a layperson how a specific form of policy gets worked out among this one of three sources of wisdom and accountability he describes?

2. Last Name A-E: Should the right of someone to marry someone of the same gender be an “individual” or “private” decision?

“The Coffee Markets Hot…” Econ Chapter 3

3. Last Name Q-Z: An organization called TransFair certifies a “fair trade” designation for coffee beans purchased at a wholesale price of $1.26 or more per pound. What do you think would happen to the quantity of coffee beans supplied and demanded if the government mandated a minimum wholesale price of $1.26 for all coffee bean purchases?

“Basic Concepts in Economics” Econ Theme 3
“Supply and Demand” Econ Theme 4
(4) Last Name L-P: Offer a written explanation of “opportunity cost” for a California Legislator that is in a style and language they can follow. Use California public policy examples to help them understand the concept.

**Week 4 (September 26)**

**HW Assignment 1** given out at noon on Thursday, September 27 on WebCT - it must be returned by noon on Thursday, October 4 through WebCT

“Semantic Tips: A Summary” Practical Appendix C

HW Assignment 1 based in part upon this reading.

“Things Governments Do” Practical Appendix B

HW Assignment 1 based in part upon this reading.

“Why was the Great Newspaper Heist So Easy?” Econ Chapter 4

(1) Last Name A-E: How would you characterize the demand for illegal drugs among your friends? Is that demand (or lack thereof) determined by the fact that the drugs are illegal? What implications does this have for the government’s enforcement policy?

“Elasticity” Micro Theme 5

(2) Last Name F-J: Describe in language accessible to a layperson what it means for the demand for a good or service to be relatively “income elastic”? Would a per-unit (excise) tax levied on such a good or service be “fair”?

“Demand: Consumer Choice” Micro Theme 6

(3) Last Name K-N: Explain the concept of “diminishing marginal utility” using a real world example. Also explain why the “MU/P” for all goods and services consumed for an individual must be as close as possible for that person to be as happy with their consumption decisions as possible. When would they want to buy more of one good or service and less of another?

(4) Last Name O-S: When the price of a good or service rises, people buy less of it due to both a “substitution effect” and an “income effect” (if the good or service is a “normal” good”). Explain this statement with a real-world example.

(5) 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.
**Week 5 (October 3)**

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

“Is Adam Smith Rolling Over in His Grave?” Econ Chapter 6

(1) Last Name T-Z: Given that the Justice Department and the Federal Trade Commission seek to promote competition between firms, what arguments do you suppose were used to gain their acceptance of the Kmart-Sears merger? That is, how might this merger increase the level of competition in the long run?

“The Firm: Costs” Micro Theme 7

(2) Last Name A-E: 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.

“Why are there More Members of a Band…?” Econ Chapter 7

(3) Last Name O-S: If you were the president of a public policy consulting firm, how would you decide how many consultants to hire? Could you ever hire too many consultants? Explain.

“Could the Future Cost of Energy Change Life…” Econ Chapter 8

(4) Last Name K-N: Which of the following power sources are most likely to come from natural monopolies? Which could be set up either as centralized power sources or as decentralized, soft-path sources? Explain why? A) wind turbines, B) hydroelectric power generation along a river, C) coal, D) oil, and E) solar.

(5) Last Name F-J: Draw supply and demand curves on a graph to illustrate what you think happened in the alternative energy market as a result of skyrocketing retail energy prices in CA?

**Week 6 (October 10)**

“A Benchmark for Performance: The Market” Policy Chapter 3

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

“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”?

“Why is Cash the Ultimate Gift?” Econ Chapter 9
(3) Last Name N-Z: Cash provides flexibility, but sometimes complete flexibility is a concern because it permits spending on addictive substances. What compromises did the chapter suggest in the context of gift giving and aid for the poor? How might a properly conceived voucher system solve similar problems in the context of education? What drawbacks might a voucher system involve?

Week 7 (October 17)

“Imperfect Competition” Micro Theme 9

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

“What’s Behind the Music Industry Woes?” Econ Chapter 13

(3) Last Name A-D: Who are the three highest paid people of whom you can think of? Is there market power in their industries? What barriers to entry exist for labor market participants who might want to compete for the positions of those two people? Are the lowest paying jobs those with the fewest barriers to entry?

“Wal-Mart: Friend or Foe?” Econ Chapter 14

(4) Last Name T-Z: In what ways does Wal-Mart help poor people? In what ways does it hurt them? Can you think of ways of providing benefits to the poor without harm to others?

Week 8 (October 24)

Midterm Given First 90 Minutes of Class

“Evaluation and Market Failure: Criteria for Policy Intervention” Chapter 4

(1) Last Name A-M: 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 N-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 9 (October 31)

“Nonmarket Allocation...” Micro Theme 11

(1) Last Name I-N: 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 O-R: 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.

“Why Not Split the Check?” Econ Chapter 11

(3) Last Name A-H: As a deterrent to burglary, you could install alarms around your home that help police catch criminals or install a fence around your home that keeps intruders out. In terms of crime (and disregarding the attractiveness of the fence), which of these deterrents might create positive externalities? Which might create negative externalities? Which method of crime deterrence might a neighborhood association want to subsidize? Why?

“How Gullible Are We?” Econ Chapter 12

(4) Last Name S-Z: What evidence have you seen of the failure or success of neoclassical models? Have you noticed changes in the quality, quantity, or prices of goods and services as the numbers of competitors changed? Could anything that you do be considered irrational?

Week 10 (November 7)

Assignment 2 given out at noon on Thursday, November 8 on WebCT - it must be returned by noon on Thursday, November 15 through WebCT.

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

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

“How Potential Criminals Contemplate Their Fates?” Econ Chapter 16

(3) Last Name N-Q: What solution(s) to the problem of violent crime do you favor? Why?

“Should Damage Awards in Lawsuits...” Econ Chapter 17
(4) Last Name R-Z: As we consider public policy to promote responsible behavior, are there any particular professions that deserve attention? Do physicians, educators, and religious leaders have adequate incentives to uphold appropriate standards of conduct? If so, describe what they are. If not, provide examples that support your belief that people in these positions might act selfishly and need outside incentives to behave virtuously.

**Week 11 (November 14)**

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

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

(2) Last Name K-N: 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 A-J: 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.

“What is the Role for Government?” Econ Chapter 26

(4) Last Name S-Z: Do you think that the efficient level of immunizations can be reached in the absence of government intervention?

**Week 12 (November 21)**

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

“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 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?

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

“Government: Taxation and Regulation” Micro Theme 12
“What’s to Love about Taxes?” Econ Chapter 18

(3) Last Name P-Z: From your perspective, what are the best and worst aspects of taxation?

*To receive credit for answering these questions they must be e-mailed to me by WebCT before the chat begins and you must participate in the chat.*
Week 13 (November 28)

“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.

“Do Pharmaceutical Patents Cost Lives or Save Them?”          Econ          Chapter 20

(2) Last Name M-Z: If you could rewrite all any or all of the patent laws, for how many years would you offer patent rights, and what other policies would you adopt to strike the appropriate balance between drug policies and R and D incentives?

Week 14 (December 5)

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-0: In policy analysis, is the value of a future payment always worth less than a current payment?

“How Might Economics Help Save the Planet?”          Econ          Chapter 29

(3) Last Name P-S: Summarize the general pros and cons of market-based and command-and-control approaches to toxic emissions.

(4) Last Name T-Z: Suppose that your dorm instituted a market for room selections. If you were willing to pay $100 more than anyone else for the corner room on the second floor and the market price for that room (beyond the standard room rate) was $100, would it still be more efficient to have the room-selection market rather than a room lottery? What in this case is the net gain to society from the market solution?
Week 15 (December 12)

“Cost-Benefit Analysis” Policy Chapter 15

(1) Last Name A-L: Write a short prospectus for the Sacramento Regional Transit Board that describes the basics of how you would go about conducting a cost-benefit analysis of an extension of the light rail to the airport that you are proposing to conduct for them.

“What is the Value of Human Life?” Econ Chapter 15

(1) Last Name M-R: 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?

“Do Tree Huggers Deter Growth and Employment?” Econ Chapter 24

(2) Last Name S-Z: What is the largest number of mature redwood trees that you would sacrifice to lower the unemployment rate from five to three percent? How would your answer change if instead it was spotted owls? What about humans?

Week 16 (December 19)

Final Exam Due