**PPA 220B – APPLIED ECONOMIC ANALYSIS II**

**GRADUATE PROGRAM IN PUBLIC POLICY AND ADMINISTRATION**
**CALIFORNIA STATE UNIVERSITY, SACRAMENTO**
**SPRING 2007**

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**Class Location:** Thursday, 6:00 p.m. - 8:50 p.m., 1007 ARC

**Office:** Room 3037 Tahoe Hall

**Office Phone:** (916) 278-6304

**Office Hours:** Thursday, 3:00 – 5:45 p.m.; and by appointment if necessary

**Prerequisite:** Grade of B- or higher in PPA 220A.

**Required Texts:**

(1) *Cost-Benefit Analysis for Public Sector Decision Makers*, Diana Fuguitt and Shanton J. Wilcox, Quorum Books; can be purchased at CSUS bookstore or [Amazon.com](http://www.amazon.com) (click the previous link to purchase there);

(2) *Your Money or Your Life: Strong Medicine for America's Health Care System*, David M. Cutler, Oxford University Press, can be purchased at CSUS bookstore or [Amazon.com](http://www.amazon.com) (click the previous link to purchase there).

There are also supplemental readings assigned throughout the semester. These are listed in the schedule below. Copies of these readings are either available directly from the Internet (an electronic link is provided below) or at the library’s reserve room. (I apologize for the need for you to copy documents from the reserve room, but I have done this in order to save you the expense of having to buy entire books.)

**WebCT:**

This course requires that you have access to the World Wide Web and WebCT. If you do not have an account at home or work that allows this, you can get one through CSUS. On WebCT I will post an outline of material covered in each meeting. These will be available by the Friday before the class meets. Discussion
question answers should be submitted in paper form by the end of class. Your grades will be accessible through WebCT.

**Course Objectives:**

At the end of PPA 220B, it is expected that a student that attends all meetings will:

1. Understand the basic process of how to conduct a benefit/cost assessment and have a working knowledge of some of the specific techniques necessary to do it.

2. Develop a basic understanding of key concepts used by economists in their study of state and local public finance (structure of government, incidence of a tax, effect of a subsidy, etc.).

3. Be able to accurately summarize key institutional changes in California's intergovernmental climate (Serrano vs. Priest, Proposition 13, ERAF, etc.) and the policy impacts that they continue to have.

4. Use the tools of policy analysis to reach evaluative conclusions on key policy concerns affecting the state (for example: immigration, public k-12 education reform, health and health insurance reform, housing affordability, homelessness, etc.).

This course exposes you to the basic study and application of public economics and policy through the study of market failure, public choice, government organization, expenditure, taxation, and state and local government applications specific to California. You will be expected to learn and apply some simple economic theory; however, keep in mind that the goal in doing so is to better understand, analyze, and critique existing and proposed public policies.

**Method:**

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 discussion questions that has been designated by the letter (A-E) that you have also been assigned to. (The week before classes begin, I will send an e-mail out through WebCT that gives you an assigned letter and discussion group number that you will be in.)

Discussion questions 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 either a check minus, check, or check plus 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. **Your overall grade on these discussion questions will be based on the highest twelve assigned grades you receive.** One of these write ups can be turned in at our first class meeting. Please feel free to turn in more than twelve. But, I will only count your best twelve grades. I will not accept late or early submissions. Besides the weekly discussion questions just described, your grade in this course will be based upon a benefit/cost based assignment, a WebCT based midterm, and a group final project.

If there are concepts or ideas that were covered in a class 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 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 office hours, sending an e-mail question to me at rwassme@csus.edu (please do not send through 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 Thursday e-mail or call within 24 hours.

Questions, comments, and discussion about material assigned for a 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. As part of my consideration on your course participation grade, please plan on stopping by to visit me at least once during my office hours.

The course consists of one 170 minute meeting a week on Thursday night. Each meeting is structured in two parts. From 6:00 to 6:20 you will break up into your assigned groups and discuss the answers to the discussion questions some people in your group have answered in relation to the material covered in the first half of the course. Amongst your group I will also ask you to come up with two additional topics covered in the readings for the first half of class that were not covered in the discussion questions. Appoint two people, who did not answer the discussion questions, to be the spokespeople on these issues for later in class. At 6:20 we will reconvene as a class and discuss the answers to the discussion questions and the additional topics amongst us all. This will take us till 7:25 where we will take a 10 minute break and come back at 7:35 to do the same thing over again for the material designated for the second half of the class.

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**Schedule:**

This class will meet a total of 14 times throughout the semester. An additional meeting time requires mandatory participation in a WebCT based electronic midterm that will require you having access to an Internet based computer from 6
to 9 p.m. on Thursday, April 5. The readings for each meeting, and related discussion questions, are given below.

Meeting 1 (Feb 1)

First Half of Class

FugWil (Chapter 1) - A History of Application

(A) How did the “Risk Assessment and Cost Benefit Act” of 1995 (H.R. 1022) “turn what is a laudable goal – encourage better cost-benefit analysis – into an inflexible and unobtainable prerequisite for any regulation?

FugWil (Chapter 2) - The Decision Maker, the Analyst, and CB Analysis

(B) Offer some examples of how an analyst or an institution could “capture” a B-C assessment.

FugWil (Chapter 3) - Policy Advocates and Adversaries

(C) Pick one of the seven illustrative applications and briefly describe the technical concepts needed to conduct a B-C assessment.

Second Half of Class

FugWil (Chapter 4) - Economics and Cost-Benefit Analysis

(D) How can the concept of “sustainability” be built into a C-B assessment?


(E) Does the evidence presented in the Hahn, Tetlock, and Burnett article justify government intervention into whether cell phones can be used while driving?

Meeting 2 (Feb. 8)

First Half of Class
FugWil (Chapter 5) - Economic Valuation of Individual Preferences

(A) Explain how to calculate the benefit of a government policy that would expand a commercial Fishery such that the annual harvest rises from 2 to 10 thousand?

FugWil (Chapter 6) - Who is Society?

(B) Suppose levees throughout Sacramento County were strengthened using only funds provided by Sacramento City. Discuss the pros and cons of giving standing to only city residents as opposed to all county residents.

FugWil (Chapter 7) - With and Without Analysis

(C) In conducting a B-C assessment of universal pre-school in California, discuss the difficulties and necessity of providing an appropriate “baseline” scenario.

Second Half of Class

FugWil (Chapter 8) - Aggregate Benefits and Costs

(D) Should distributional weights be used in a B-C analysis? Offer both sides of the argument.

FugWil (Chapter 9) - Present Value of Benefits and Costs Over Time

(E) Why should “an actual B-C analysis not report the simple summation of benefits and costs over the time horizon”?

If your knowledge of Excel spreadsheet techniques is weak, you should work through this learning module - http://www.usd.edu/trio/tut/excel.

Meeting 3 (Feb. 15)

First Half of Class

FugWil (Chapter 10) - Decision Criteria

(A) Would you expect government to pursue every public policy intervention that yielded a positive net-present value in a B-C analysis?
FugWil (Chapter 11) - Discount Rate

(B) Why should a sensitivity analysis regarding your choice of discount rate always be performed? Should negative values ever be used for a discount rate in this analysis?

FugWil (Chapter 12) - Inflation

(C) What is the advantage of using real values for all costs and benefits included in your B-C assessment?

Second Half of Class

FugWil (Chapter 13) - Time Horizon

(D) Explain the need for replication to compare the relative desirability of two policies when time horizons on each differ?


(E) Even if you disagree with the analysis of the Stern Report as reported by the CATO Institute, using the methods covered in FugWil, defend how they have reached their conclusions.

Meeting 4 (Feb. 22)

First Half of Class

FugWil (Chapter 14) - Uncertainty and Risk

(A) How can the risk of an uncertain policy outcome be best handled in a B-C assessment?

FugWil (Chapter 16) - Identifying Benefits and Costs

(B) Why is it recommended to not count “pecuniary” and “secondary” effects in a B-C study?
Second Half of Class

FugWil (Chapter 17) - Market Valuation

(C) Sketch out the process of using regression analysis to estimate the consumer surplus generated from a government policy that increases the salmon harvest.

FugWil (Chapter 18) - Contingent Valuation

(D) Should WTP, WTS, or WTA be used when deriving a contingent valuation?


(E) What does contingent valuation really measure?

Meeting 5 (March 1)

B-C Assignment Given Out

First Half of Class

FugWil (Chapter 19) - Travel Cost Method

(A) Why would you want to ask the zip code of a family that is entering a national park? What is the use of gathering other demographic information from them?

FugWil (Chapter 20) - Hedonic Pricing Method

(B) Briefly describe how this method could be used to calculate the benefit of a government intervention that raises standardized test scores at a neighborhood elementary school.

Second Half of Class

FugWil (Chapter 21) - Valuation of Human Life

(C) Why does a value need to be placed on human life for B-C analysis? Are you comfortable in the way that it done by economists?

FugWil (Chapter 22) - Cost-Effectiveness Analysis
(D) Offer an example where it would be more appropriate to use a cost effectiveness analysis instead of a B-C analysis.

Sunstein: Book Review of Ackerman’s and Heinzerling’s *Priceless: On Knowing the Price of Everything and the Value of Nothing* - http://ase.tufts.edu/gdae/about_us/ackerman_nr_march04.html

(E) K-O What criticism of B-C analysis described in this article do you find most valid? Least valid?

**Meeting 6 (March 8)**

First Half of Class


(A) Browse through the “State-Local Finances” and “State Budget” facts contained in this publication and find one from each of these topics that are surprising to you. Describe what they are and why they surprised you.

Fisher (Chapter 5) – Public Choice through Mobility (I will e-mail you PDF).

(B) Some people have suggested that political voting and voting with one’s feet simultaneously apply in determining the amounts of local public services to provide. Discuss how this might happen. How might the limitations of the assumptions in the Tiebout theory contribute to a role for voting?

Second Half of Class

Fisher (Chapter 6) - Sub National Government (I will e-mail you PDF).

(C) “Unless there are economies of scale in the production of government goods and services, they should always be provided by the smallest available government units (that is, the lowest-level government in a federal hierarchy).” Evaluate this position.

Shrag "The Spirit of 13" - *Paradise Lost: CA’s Experience, America’s Future* (on reserve at library).

(D) Is the property tax in California best considered a “local” or a “state” tax?
(E) There are both bad and good things that have come out of Prop 13 for California. Generate a list of these and conclude whether the bad outweighs the good.

Meeting 7 (March 15)

B-C Assignment Due

First Half of Class


(A) In your opinion, what is the most severe unintended consequence of Proposition 13? Describe why you feel this way.


(B) Summarize the institutional reasons why California has less city governments per capita than other states.

Second Half of Class

Fisher (Chapter 12) - Principles of Tax Analysis (I will e-mail you PDF).

(C) Explain the factors that determine who bears the economic incidence of a tax.

(D) Does the economic incidence of a tax depend on its statutory incidence?

PPIC: Just the Facts, California’s Tax Burden - http://www.ppic.org/content/pubs/JTF_TaxBurdenJTF.pdf


(E) Provide an overall assessment of your opinion on both the equity and efficiency of California’s tax system.

Meeting 8 (March 22)

First Half of Class
Video to be shown in class (first 15 minutes of class for video, then 10 minutes in your discussion group):
*From First to Worst video described at:* [http://www.pbs.org/merrow/tv/ftw](http://www.pbs.org/merrow/tv/ftw)

(A) In your opinion has school finance reform in California been “good” for the state?

Reed: *The Growing Importance of Education in California* – [http://www.ppic.org/content/pubs/OP_703DROP.pdf](http://www.ppic.org/content/pubs/OP_703DROP.pdf)

(B) Is the trend in education achievement in California troubling to you? Explain why or why not?

Second Half of Class

Fisher (Chapter 19) – Education (I will e-mail you PDF).

(C) Summarize the basic factors that economists feel cause differences in the average standardized test score observed across K-12 school sites. What factors can be influenced by public policy?


PPIC Research Brief: *Has School Finance Reform Been Good for California?* - [http://www.ppic.org/content/pubs/RB_200JSRB.pdf](http://www.ppic.org/content/pubs/RB_200JSRB.pdf)

(D) How are the sources of California’s school finances distributed to local schools? Would you consider this “fair”? What about “adequate”?


(E) Describe what Prop 98 does and why it was put in place. In your opinion should it be kept as is, changed, or eliminated? Describing the reasoning used to form this opinion.

**Meeting 9 (April 5)**

**WebCT Internet-Based Midterm Exam**
(Details to be given a week earlier in class)
**Meeting 10 (April 12)**

**First Half of Class**

Quigley and Raphael: “Is Housing Unaffordable? Why Isn’t It More Affordable” -  
http://urbanpolicy.berkeley.edu/pdf/QRJEP04PB.pdf

(A) How is housing affordability measured?

(B) Offer some explanations for the trends observed in low-income housing markets.

Motley Fool (Radio Interview): “The Economics of Housing Prices” -  

(C) What are the reasons given in this radio interview for high housing prices? Does the interviewee believe that these increasing home prices are sustainable? Why or why not?

(D) What is an “exotic mortgage product”? If you are “risk adverse” would you use one to purchase a home?

**Second Half of Class**

Rohe, McCarthy, and Van Zandt: “The Social Benefits and Costs of Homeownership” -  
http://www.housingamerica.org/docs/RIHApw00-01.pdf

(E) What are the social benefits and social costs of encouraging homeownership as opposed to renting? Has this paper debunked any widespread myths that you have heard on this topic?

**Meeting 11 (April 19)**

**First Half of Class**

CBP: “Locked Out 2004” -  

(A) Is it “too” much for a household to devote 30% of their income to housing expenses? What about 50%?

(B) Is it a problem that California’s homeownership rates are lower than the rest of the U.S.?
(C) Pick the two California State administrated housing programs that appear the most well thought out and thus likely to be effective. Describe the basics of these programs and why you chose them.

Second Half of Class

Sacramento City Affordable Housing Ordinance

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BIA: “Suing Sacramento County over Inclusionary Housing” - http://www.biasup.org/legislativeupdate.html

(D) Describe the basics of the Sacramento City and County affordable housing ordinances. Why is it that the BIA is opposed to them? Do you agree?

Inclusionary Zoning: The California Experience (read pp. 1 – 8 and pp. 38 - 46)

(E) Is the adoption of inclusionary housing laws by California communities in part responsible for a decline in the supply of housing in the State?

Meeting 12 (April 26)

First Half of Class


(A) How many people in California are homeless? What about Los Angeles? How is homeless defined in this calculation? Do you agree with this definition?

(B) Are there any surprises to you in what these authors found empirically as reasons for the differences in homelessness across places in the United States? What are the policy implications of these findings?

Second Half of Class


(C) Describe the homelessness strategy and state-based homelessness prevention programs used in Australia? What would you recommend for California?

(D) Describe the research methodology used in this study? Could a similar approach be used in California? Is there anything you would modify?


(E) Read the base report that yielded the above summary and describe how the authors found how three different housing policy interventions would impact the Sacramento market. Which would be the most effective?

Meeting 13 (May 3)

First Half of Class

Cutler: Chapter 1, “The Health of a Nation”

Cutler: Chapter 2, “Pricing the Priceless”

(A) Describe the concept of Quality-Adjusted-Life-Years (QALY) and how it is used in this chapter? Are you comfortable with this method?

Cutler: Chapter 3, “Beginning of Life”

(B) Is it appropriate to spend $30,000 in care for the typical low-birth baby or $700 for the typical bought of depression treated with Prozac? Describe how a health economist approaches these questions.

Second Half of Class

Cutler: Chapter 4, “Power of Pill”
(C) How did the development of Prozac change the economic incentives with regard to how mental illness is treated in the U.S.?

Cutler: Chapter 5, “Heart of Matter”

(D) How does Cutler come up with a 4 to 1, benefit to cost ratio for the typical cardio medical treatment given? Does this mean we should be satisfied with the way heart disease is treated in the U.S.?

California Health Care Foundation: California’s Uninsured 2005 -
http://www.chcf.org/documents/insurance/SnapshotCaliforniaUninsured05.pdf

(E) Based upon the information given about California’s uninsured, evaluate both the equity and efficiency considerations in moving to a state policy where everyone has health insurance.

Meeting 14 (May 10)

Group Final Exam Assignment Given Out

First Half of Class

Cutler: Chapter 6, “Value of Medical Care”

(A) Why does Cutler believe that we have a medical system of value, but not one as valuable as possible?

Cutler: Chapter 7, “Get What You Pay For”

(B) Describe how the economic concept of “moral hazard” caused problems in the “fee-for-service” health insurance system generally used in the U.S. between 1950 and 1990.

Cutler: Chapter 8, “Managed Care Debacle”

(C) Why do Americans hate HMOs and managed medical care?

Second Half of Class

Cutler: Chapter 9, “Paying For Health”

(D) Evaluate some of the incentives suggested by Cutler for improving managed medical care?

Cutler: Chapter 10, “Universal Benefits”
Pauly: “Conflict and Compromise over Tradeoffs in Universal Health Insurance Plans” -

(E) Describe the plan advocated by Cutler to get health insurance to all Americans. Why does he feel it would appeal to both the Left and Right on the political spectrum? What is “Altman’s Conundrum?”

Meeting 15 (May 17)

First Half of Class

Lowenstein: “The Immigration Equation” -

(A) Describe the research finding of George Borjas in relation to the effect of current immigration on the U.S. economy. What does he feel are the appropriate policies the U.S. should adopt concerning immigration?

(B) Describe the research finding of David Card in relation to the effect of current immigration on the U.S. economy. What does he feel are the appropriate policies the U.S. should adopt concerning immigration?

Second Half of Class

Johnson: The Demography of California’s Immigrants -
http://www.ppic.org/content/pubs/OP_301HJOP.pdf

(C) Given the information on the changing national origin of U.S. immigrants, should these changes be of concern for native Californians?

PPIC Research Brief: Immigrant Education -
http://www.ppic.org/content/pubs/RB_905DRRB.pdf

PPIC Research Brief: The Economic Progress of Mexican Americans -
http://www.ppic.org/content/pubs/RB_502JGRB.pdf

(D) Why does immigration play a tremendous role in the Mexican-white high school graduation gap observed in California?

RAND: New Immigrants, New Needs -
http://www.rand.org/pubs/research_briefs/RB8015/index1.html
(E) What does this study conclude in regard to what California needs to do in order to insure that immigration provides a net-benefit to the state?

**Take Home Group Final Exam Due (May 24)**

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**Grades:**

The average grade assigned your discussion questions account for 25 percent of your final course grade. Your B-C assignment is weighted at 20 percent, your midterm is valued at 20 percent and 25 percent comes from the take-home final exam. The remaining 10 percent of your grade is based on classroom participation. You must complete the final exam to pass the class.