

Hubert Humphrey Institute of Public Affairs

Fall 2015

PA 5021: Microeconomics for Public Affairs and Planning I

Instructor:

Maria Hanratty, 251 Humphrey Center, hanra003@umn.edu, 625-6500

Office Hours: M 1:00-3:00 or by appointment

Teaching Assistant:

Steven Lutes, lutes010@umn.edu

Meeting Times:

Lecture MW 9:45-11:00 AM Blegen 415

Lab F 11:15-12:05 AM Blegen 415

Course Description:

Welcome to Economics for Policy Analysis I. This course will teach you to apply microeconomic reasoning to public issues, policies and programs. It begins with an analysis of economic incentives and their impacts on the behavior of individual consumers and firms, and shows how these decisions affect market outcomes. It then moves to an analysis of the consequences of market failure, and potential policy instruments to offset the impacts of market failure.

To be able to understand and apply economic analyses it is important that you learn to think about economic issues on three levels: conceptual, graphical, and mathematical. Lectures, problem sets and quizzes will encourage you to think about problems on all of these dimensions. Students frequently find one or more of these approaches easier than they do the others. We encourage you to challenge yourself to integrate all three.

Students will also be encouraged to think about how economic analysis applies to policy issues. To facilitate this process, we will have a series of in-class debates in which

students apply concepts in class to current policy issues. These debates will offer you a chance to hone your communication skills and to explain economic concepts in a way that would be relevant and accessible to a policy audience.

Course Requirements:

Class participation. Although there is no formal grade for class participation, I welcome your participation in class. Other students benefit when you ask questions, so please do not be afraid to ask questions!

Homework assignments (15% of class grade). You will receive a problem set assignment nearly every week. Problem sets will be graded with a check, check minus or check plus. Problem sets are due in class on the day of the recitation that covers the problem set. If you cannot make it to recitation, please arrange with the TA to turn in the assignment before then. You may skip one problem set and still get full credit.

I encourage you to take these problem sets seriously, as this is the best way to ensure that you understand the course material. Students are encouraged to work on homework in groups, but should write up the answers to each problem set in their own words. This is the best way to ensure that you fully understand the material.

Recitations. In the recitation sections, the teaching assistants will explain the solutions to the problem sets, and they will clarify any material in class that is unclear to students. If you have a good grasp of the course material, you are not required to attend recitations, as long as you arrange to turn in problem sets to the TA.

Short Memo and In-Class Debate (15% of grade): Students will work in groups to prepare presentations for an in-class debate on a current policy issue. In addition, each member of the group will write an individual memo, no longer than 4 double spaced pages, that summarizes their position on the issue. The memo will be due one week after the in-class debate. I will evaluate the memo on the clarity and quality of its writing, as well as on the coherence of its economic arguments.

Two Quizzes (20% each; 40% of class grade). The quizzes will cover material presented in class, problem sets, or in the case presentations.. They typically test both basic concepts developed in class, as well as your ability to analyze problems like those in your problem sets. You can assume that the quizzes will not cover material in the text, unless it is also included in class lectures, cases or problem sets.

Final Exam (30% of class grade). The final exam will be the same format as the quizzes and problem sets. It will be more heavily weighted towards the material in the final part of the class, but will draw from material covered throughout the class.

Special Needs: Students who need special consideration because of any learning or physical disability should make an appointment to meet with me before the first quiz.

Required Texts:

The text for this class is:

Robert S. Pindyck and Daniel L. Rubinfeld, *Microeconomics*, 8th Edition, Pearson Education Inc, 2013

You can purchase an earlier versions of the text, or can buy an on-line version at roughly half the cost of the text version.

Additional readings will also be available on the course web site:

Additional Resources:

One of the best ways to keep up with current economic policy issues is to read regularly read articles in sources such as *The New York Times*, *The Wall Street Journal*, or *The Economist*. In addition, you may want to follow one of the current economics blogs such as those listed at <http://www.26econ.com/economics-blog-directory-ranking/>.

There are many sources of information on current research on economic policy issues. Here are a (very few) of my favorites.

Journal of Economic Perspectives: provides great summaries of current research in economics and policy, intended to serve a broad audience of academics and practitioners

National Bureau of Economic Research Working Paper Series, www.nber.org: provides up to date research on many important economic issues

EconLit Search Engine (on library web site): provides comprehensive listing of all recent economic

Course Outline and Required Reading:

Following is a tentative outline of the class schedule. If needed, we may cover material faster or slower than indicated here. However, we will still hold the quizzes on dates shown below unless the class agrees to a change of date.

I. Introduction to Supply and Demand

A. Supply, Demand and Equilibrium (September 9)
P & R, Chapter 1, 2.1-2.3

B. Comparative Statics and Elasticities (September 14)

- P & R, Chapter 2.4-2.6
- C. Policy Applications: Minimum Wage, Rent Control (September 16)
P & R, Chapter 2.7

David Card and Alan Krueger, *Myth and Measurement: The New Economics of the Minimum Wage*, Princeton University Press, 1995, chapter 2

Neumark, David and William Wascher. "Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania: Comment," *American Economic Review*, December 2000, pp. 1362-139 and reply by Card & Krueger, pp 1397-1420

Arindrajit Dube, T William Lester and Michael Reich, *Minimum Wage Effects Across Borders: Estimates Using Contiguous Counties*, *Review of Economics and Statistics*, November 2010, 92(4):945-964

- D. **CASE 1: A Living Wage? (September 21)**
P & R, Chapter 2.7

II. Consumer Choice:

- A. Preferences & Constraints (September 23)
P & R, Chapter 3.1-3.2
- B. Utility Maximization (September 28)
P & R, Chapter 3.3 and appendix to Chapter 4
- C. Impacts of Changes in Income & Changes in Prices (September 30)
P & R, Chapter 4.1-4.2
- D. Market Demand (October 5)

P & R Chapter 4.3-4.4
- E. Application: Economics of Subsidies vs Vouchers (October 7)

Thomas M. Fraker, Alberto P. Martini, and James C. Ohls, "The Effect of Food Stamp Cash-out on Food Expenditures," *The Journal of Human Resources*, Fall 1995, pp. 633-649
- F. Applications: Measuring Cost of Living (October 12)

P & R, Chapter 3.5

IN-CLASS QUIZ OCTOBER 14

III. Theory of the Firm

- A. Physical Production (October 19, 21)
P& R, Chapter 6
- B. Short Run Costs (October 26)
P & R, Chapter 7.1, 7.2
- C. Long-Run Costs (October 28)
P& R, Chapter 7.3,7.4
- D. Competitive Supply in the Short & Long Run (November 2,4)
P& R Chapter 8

IV. Competitive Equilibrium:

- A. Equity and Efficiency of Competitive Markets (November 9)
P& R Chapter 9
- B. Effects of Government Intervention (November 11)
P& R, Chapter 9
- C. Case 2: EU Price Supports (November 16)**

V. Market Failures: Concentrated Market Power

- A. Monopolies & Monopoly Power (November 18)
P & R, Chapter 10

IN-CLASS QUIZ NOVEMBER 23

- B. Monopoly Pricing & Monopoly Regulation (November 25)
P&R Chapter 11
- C. Case 3: Microsoft (November 30)
- D. Oligopoly (December 2)
P & R, Chapter 12

VI. Market Failures: Externalities, Public Goods

- A. Externalities: (December 7)
P&R Chapter 18.1-18.5
- B. Public Goods (December 9)

P&R Chapter18.6-18.7

C. CASE #3: A Fat Tax? (December 14)

D. Application: Regulating Pollution (December16)

P&R Chapter 18.2

FINAL EXAM: 10:30-12:30 Saturday December 19