

Public Policy 554: Economics for Public Affairs

Fall 2019

Instructor:

Stephanie Leiser

schmidts@umich.edu

5307 Weill Hall

Office hours: Wednesdays 10 -11:30 ([please sign up here](#)) or by appointment

Tutor: TBA

Canvas Website: <https://umich.instructure.com/courses/320085>

Class Meetings: MW 11:30 – 12:50, 1220 Weill

Course Description: This course teaches fundamental concepts in microeconomics that are essential to the study and practice of public policy and public management. We will focus on real-world applications to answer the question: “Why do people who care about public policy need to know microeconomics?” The primary learning objective of this course is for students to become comfortable applying economic models to real world policy issues. Careful attention will be paid to understanding key model assumptions and limitations, identifying and manipulating model parameters, adapting models to address novel situations, and using models to evaluate and compare policy options. Class sessions will be a mix of lecture, large and small group discussions, and debates. The presentation of concepts is mostly graphical, and only algebra-level math will be used.

Texts and Readings: Our main text will be *Microeconomics and Behavior* (9th ed.) by Robert H. Frank. Other supplemental readings will be posted on Canvas.

Grading and Assignments:

- Problem Sets (4)—30% of total grade
Students will complete four problem sets throughout the semester. These problem sets are designed to reinforce definitions and the more technical aspects of the course material. Students are encouraged to work together on problem sets, though every student must submit their own work.
- Short Memos (3)—25% of total grade

Short memos are designed to complement the more technical problem sets, inviting students to reflect and expand on course concepts and/or relate concepts to real-world examples. Students will complete three short memos (1-2 pages, single spaced) throughout the semester.

- **Final Paper—35% of total grade**
The main project of the course will be to produce a white paper on a policy problem of the student's choice. The white paper should use concepts from the course to model the policy problem, being sure to address model assumptions and limitations. Next, the paper should use the model to evaluate two or three policy options, and review any relevant empirical research. Finally, the white paper should make a policy recommendation based on the analysis. Work on the project will begin with a topic proposal due around mid-semester, followed by opportunities for collaborative brainstorming and peer editing. A detailed assignment and timeline will be posted on Canvas.
- **Class Participation—10% of total grade**
For each class session, students are expected to arrive ready to discuss the day's topic. This includes not only completing the assigned readings, but thinking of critical questions, examples, extensions, etc. Students are encouraged to draw on their own professional experiences and on news and current events.

Other Course Policies:

- Please let me know immediately if you have a conflict or disability that might inhibit you from meeting due dates or otherwise fully participating in the class. I will make appropriate accommodations.
- Unless a prior agreement is reached, late work will incur a penalty of 10% of the possible points per day.
- No extra credit.
- Please keep the use of computers, phones, etc. to a minimum during class.

SCHOOL-WIDE POLICIES AND RESOURCES

Ford School of Public Policy Inclusivity Statement:

Members of the Ford School community represent a rich variety of backgrounds and perspectives. We are committed to providing an atmosphere for learning that respects diversity.

While working together to build this community we ask all members to:

- share their unique experiences, values and beliefs
- be open to the views of others
- honor the uniqueness of their colleagues
- appreciate the opportunity that we have to learn from each other in this community
- value one another's opinions and communicate in a respectful manner
- keep confidential discussions that the community has of a personal (or professional) nature
- use this opportunity together to discuss ways in which we can create an inclusive environment in Ford classes and across the UM community

Accommodations for Students with Disabilities: If you believe you need an accommodation for a disability, please let your instructor know at your earliest convenience. Some aspects of courses may be modified to facilitate your participation and progress. As soon as you make your instructor aware of your needs, they can work with the Services for Students with Disabilities (SSD) office to help determine appropriate academic accommodations. Any information you provide will be treated as private and confidential.

Student Mental Health and Well-Being Resources: The University of Michigan is committed to advancing the mental health and wellbeing of its students. We acknowledge that a variety of issues, such as strained relationships, increased anxiety, alcohol/drug problems, and depression, directly impacts students' academic performance. If you or someone you know is feeling overwhelmed, depressed, and/or in need of support, services are available. For help, contact (CAPS) and/or [University Health Service](#) (UHS). For a listing of other mental health resources available on and off campus, visit: <http://umich.edu/~mhealth/>

Please review additional information and policies regarding academic expectations and resources at the Ford School of Public Policy at this link:

<http://fordschool.umich.edu/academics/expectations>

Tentative Schedule and Topics: (always check Canvas for the most updated schedule)

Unit 1 How Free Markets Work

For policy analysts, microeconomic models can be extremely useful tools, but like any tools, they are more or less useful depending on what you're trying to do. To understand the strengths and limitations of the microeconomic approach to policy analysis, we'll begin by taking a detailed look at the workhorse of microeconomics: the model of demand and supply.

Week	Class Dates		Topic
1		4-Sep	Introduction—Historical roots of modern microeconomics <ul style="list-style-type: none"> • From moral philosophy to economics as a “hard” science
2	9-Sep	11-Sep	Consumer Theory and Demand <ul style="list-style-type: none"> • Utility, indifference curves, budget constraints, optimal choice, law of demand, elasticity of demand • Demand side policy tools: price tools, income tools, preference tools • Critiques of rational choice theory: Behavioral economics (nudging, heuristics, etc.), feminist economics, etc.
3	16-Sep	18-Sep	Consumer Theory and Demand, cont.
4	23-Sep	25-Sep	Firms, Production, and Supply <ul style="list-style-type: none"> • Short-run cost structures, profit maximization, law of supply, elasticity of supply • Supply side policy tools: affecting costs • Critiques of profit maximization: Shareholder primacy and fiduciary duty vs. stakeholder primacy, corporate social responsibility, and B corporations
5	30-Sep	2-Oct	Firms, cont.
6	7-Oct	9-Oct	Equilibrium, Pareto Efficiency, and Welfare Analysis <ul style="list-style-type: none"> • Equilibrium (short-run partial), perfect competition, consumer and producer surplus, deadweight loss, fundamental theorems of welfare economics • The goal of efficiency in a political and policymaking context.
7	(Break)	16-Oct	Applications of the Market Model <ul style="list-style-type: none"> • Tiebout model—the market for citizens • Labor markets—the market for your time
8	21-Oct	23-Oct	Applications, cont.

Unit 2 When Markets Fail—A Role for Government

The economics of market failure is the bread and butter of many policy analysts because it provides a normative justification for what government should and shouldn't do. During this part of the course, we'll switch back and forth between looking in-depth at real world examples, and then stepping back to the level of models and generalities.

9	28-Oct	30-Oct	Externalities <ul style="list-style-type: none"> • Case study: Soda taxes • Policy tools for externalities: taxes/subsidies, cap and trade, regulation
10	4-Nov	6-Nov	Public Goods and Common Property Resources <ul style="list-style-type: none"> • Case study: Climate change • Policy tools: government provision, regulation, property rights
11	11-Nov	13-Nov	Asymmetric Information--Rent Seeking <ul style="list-style-type: none"> • Case study: Inequality and economic rents for top earners • Policy tools: institutions, information provision
12	18-Nov	20-Nov	Asymmetric Information--Adverse Selection and Moral Hazard <ul style="list-style-type: none"> • Case study: Affordable Care Act • Policy tools: regulation, government insurance
13	25-Nov	27-Nov	Market Power, Monopoly, and Natural Monopoly <ul style="list-style-type: none"> • Case study: Tech giants • Policy tools: antitrust regulation, government corporations
14	2-Dec	4-Dec	Political Economy--Limits of Government Action <ul style="list-style-type: none"> • Preference aggregation and voting, median voter theorem, public choice theory, fiscal federalism
15	9-Dec	11-Dec	Wrap up and peer edits
			* Final paper is due Monday, December 16

Updated 8/29/19