May 15, 2012

RPAD 503

Principles of Public Economics

Market Principles and Market Failures

Instructor: Stephen Weinberg

Tuesdays, 5:45p-8:50p

Husted 017

Office: Milne 213B

Office Hours: TBD

We don’t get to have everything we want. That basic truism applies to people and to firms—and it applies even moreso to governments. We have some resources—time, materials, factories, energy, talent, land, etc—and we have some things we’d like—schools with small classrooms, lots of police, medical research, etc. Some firms are better than others at transforming inputs into things we’d like. People differ in what sorts of goods and services they value most, and in their wealth.

Throughout most of the world today, markets play a key role in deciding what goods and services get produced, who produces them, and who consumes them. Few issues resonate in US policy debates as deeply as the question of how well markets serve these roles. PAD/PUB 503 investigates how markets serve these roles, the efficiency and equity implications of market operations, and the primary rationales for policy interventions in markets. This class explores the economic roots of public finance.

There are many ways we could decide how to allocate resources to different uses. Economics is concerned with

   i) Conceptual issues of cost-benefit analysis that should inform any decision about resource allocation;
   ii) The ways that markets (and, in particular, market incentives) allocate resources; and
   iii) The possible role of government in facilitating and mitigating the market allocations.

The first part of RPAD 503 explores markets and their efficiency at allocating resources, under perfect conditions. The second part of RPAD 503 explores the ways that markets can fail, and possible government-based solutions to these failures.

Within the context of the MPA core, RPAD 503 is considerably more on the policy side of the spectrum than the management side of the spectrum. RPAD 501 will cover the basics of financial management and budgeting. In this class, we will look at aggregate market behavior by using abstract (yet hopefully
illuminating!) models. In other words, this is a crash course on the key issues of microeconomics that permeate public policy and politics.

In RPAD/RPUB 503, we have two main objectives:

1) to learn key general principles about how economies work  
2) to apply those general principles to the sorts of specific questions/problems facing civil servants on a daily basis

Competencies

How does RPAD 503 fit into the NASPAA competencies discussed in RPAD 507?

Competency 1: ability to lead and manage in public governance  
- We will discuss principles relevant to managing public resources, especially when we discuss “public goods.”

Competency 2: to participate in and contribute to the policy process  
- A major course theme is evaluating the strengths and weaknesses of using market and non-market mechanisms to achieve policy goals.

Competency 3: to analyze, synthesize, think critically, solve problems, and make decisions  
- Most of what we do in this course falls into this category. Of the specific items listed in the 507 guidelines, we pay particular attention to  
  o Evaluating the equity and efficiency implications of policy options 
  o Assessing the positive and negative implications of policy options (especially the ways in which policies can incentivize actors to change their behavior) 
  o Assessing the significance of problems and solutions (especially vis-à-vis market forces) 
  o Differentiating between short- and long-term problems and solutions (especially the ways that markets evolve over time)

Competency 4: to articulate and apply a public service perspective  
- The course will discuss trade-offs of using public and private mechanisms to achieve policy goals

Competency 5: to communicate and interact productively  
- We’re going to make you write some memos. Yay!

Mathematics
The MPA program requires a basic competence in algebra. RPAD 503 is one of the courses that make particular use of this competence. You need to be able to solve problems of the following sort:

1. \[2X = 3X + 10 - 2(X-1)\]
2. \[3X + 2Y = 7; \, Y = 2X + 14\]
3. \[-2 = \frac{15-10}{P-4}\]
4. \[\frac{3}{X} = X\]

You should be able to graph lines in \(Y = a + bX\) form, and to know in a graph what a slope is and what a Y-intercept is.\(^1\)

Readings

Books are ordered through Mary Jane Books and are on reserve at Dewey Library as instructor-owned books, under “Weinberg”


Most Harvard Kennedy School of Government (KSG) cases will be posted for free to blackboard, with the permission of the KSG. You will need to purchase the pollution control case for Nov 6, which Harvard sells for $4. Directions on how to purchase this case will be made available.

Professional articles are available for full-text download through the SUNY library website (go through the Journal Finder, not the normal catalog), unless otherwise specified. **ALL professional readings will be available on-line. If you think a reading is NOT available, e-mail Professor Weinberg.** Note: the library’s Journal Finder can often find things that EBSCO cannot. Learn how to use it.

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\(^1\) Solutions: 1. \(X=12\); 2. \(X = -3; \, Y = 8\); 3. \(P=3\); 4. \(X=\sqrt{3}\). The slope is \(b\); the Y-intercept is \(a\); you should understand that the slope is the change in \(Y\) over the change in \(X\), and that the Y-intercept is the value of the function when \(X = 0\), that is, the starting point when you draw a line.

\(^2\) Greg Mankiw served as chair of the Council of Economic Advisers under George W Bush. He now chairs the department of economics at Harvard.
Grading

29% Final Exam
22% Midterm
30% Problem Sets
14% Memos
5% Participation

Office Hours

We have a TA, Youngjoo Park, who will teach a problem-based review section each week, at a time TBD. I will hold regular office hours in Milne 213B, time TBD. While I prefer for you to come to my regular office hours, I am happy to schedule appointments if you cannot come at that time. Let me rephrase: I expect and encourage you to schedule appointments if you cannot come at that time. You must e-mail me (sweinberg@albany.edu) to schedule an appointment.

Assignments

There will be 6 problem sets over the course of the term, of which you must turn in 5, including all group problem sets. You must choose which problem sets to turn in; we will not grade 6 problem sets. Problem sets are algebra-intensive.

Some assignments are team assignments, which you will do in teams that I will assign. I am assigning team problem sets for two reasons: (1) to encourage you to discuss the course material with classmates and (2) to encourage networking. I also strongly encourage you to discuss the individual problem sets and memos with your peers, provided that

a) you attempt every problem on your own before discussing them with colleagues;

b) you write up your own individual assignments from scratch, without looking at your colleagues’ work while you do it; and

c) that you explicitly acknowledge whom you worked with on the first page of the assignment. Copying a colleague’s work directly is cheating.

There will be two short analysis memos, in which you discuss how to apply course principles to specific cases. These memos will take a somewhat different form and length than the decision memos assigned in 507.

Problem sets and memos are due at the BEGINNING of class. Extensions may be granted by Prof. Weinberg in the case of severe medical or family emergency. Please do NOT approach Youngjoo Park about extensions.
You should expect to spend 10-12 hours or so per problem set.

Grading

Each assignment will receive a letter grade from A to E. I translate these grades into a 4pt scale, with A = 4.0, A- = 3.66, B+ = 3.33, B = 3.0, B- = 2.66, and so on. At the end of the semester, I take a weighted average of all your grades to get your final score. The translation from this score to a final letter grade is not a matter of simple rounding. The cut-off between an A and an A- is a 3.70. The cut-off between a B and a B- is a 3.00. The cut-offs between an A- and a B+ and between a B+ and a B will be selected in part based on the distribution of scores in the class. Hopefully I won’t need to use any grades lower than a B-, but that is up to you.

Plagiarism and Citations

I assume you are familiar with American standards regarding plagiarism. You must familiarize yourself with the information at http://library.albany.edu/usered/plagiarism/index.html. Plagiarism is a major offense and can receive severe punishments, from automatically failing the course to being expelled from the program. If in doubt about acceptable use of sources, ask.

Correct citations are one of the more important elements in avoiding plagiarism. When you use a source in a memo, make sure to cite it using any standard academic citational method. (I personally prefer the author-date parenthetical citation method used in economics, but I see no reason to force you to adopt economic norms.) Two things I do care about, no matter which standard you adopt: a) the titles of sources do not belong in the main text of your paper, but rather in the Works Cited page or a footnote, and b) article titles go in quotes; book and journal titles go in italics.

The key to a citation is that the reader must be able easily to track down the source.

Web Citations: It is helpful to the reader to include URLs on the Works Cited page for material located on the internet, assuming that the URL is permanent and that the website is universally accessible. You would NOT provide URLs for published journal articles you have accessed through the library, but you would provide a URL for a government report or for a working paper downloaded from an author’s website. Some conventions call for including the date you accessed internet materials; these conventions are necessary in increasingly rare circumstances. There is a distinction between material that exists in a final, dated form that happens to be located on the internet and material from fluid web sites. If something is fixed, such as a journal article, dated working paper, or government report, then you do NOT need to report the date you accessed the information; simply report the date of the document itself. If something could be changed at any moment, then you must report the date you accessed the website.
Grammar Help

For the individual assignments, you should feel free to seek help in proof-reading your drafts, provided that a) you make all changes yourself, and b) you acknowledge any such help explicitly on the first page of your assignment.

Incidentally, I find the Grammar Girl blog to be a useful resource: http://grammar.quickanddirtytips.com/ .

Schedule

Note: Except for the first day, all readings are to be completed before the day for which they are assigned.

Section I: Markets in a Perfect World

Aug 28: Managing Limited Resources

- Mankiw, chapters 1-2

Sept 4: Markets and Elasticities

- Mankiw chapters 4-5
- Reading Guide to Cummings et al, available on course blackboard page
- KSG case 1776.0, “The Coffee Crisis”

Sept 11: Taxes and Efficiency

- Problem Set 1 (Team)
- Mankiw chapter 6, pages 123-131 only
- Mankiw, chapter 7
- Mankiw, chapter 8
Sept 18: NO CLASS

Sept 25: NO CLASS

Oct 2: Production

- Problem Set 2 (Individual)
- Mankiw, chapter 14
- KSG Case 1273.0: Casco Bay’s Ferries

Oct 9: Equity; Reading Economics

- Problem Set 3 (individual)
- Mankiw, ch20, pp434-445
- KSG Case 1328.0: “A Money-Losing Public Monopoly Faces a Competitive Threat: the New York City Transit Authority and the ‘Dollar Vans’”
- You will be assigned to a team to read one of the following articles, which your team will discuss in class and report on to the class as a whole:

Oct 16: Midterm

- Bring a calculator with a square root button

Section II: Markets in an Imperfect World

Oct 23: Market Power

- Memo 1 (Team)
- Mankiw, chapters 15-16
Oct 30: Externalities and Public Goods

- Problem Set 4 (team)
- Mankiw, chapters 10 and 11
- You will be assigned to a team to read one of the following articles, which your team will discuss in class and report on to the class as a whole:

Nov 6: Example: Pollution Control

- Problem Set 5 (Individual)
- KSG Case 1514, “Cleaning up the ‘Big Dirtsies’: the Problem of Acid Rain”
- Handout on Present Discounted Value

Nov 13: Asymmetric Information

- Memo 2 (individual)
- Mankiw, chapter 22, pp484-489
- Handout on Asymmetric Information

Nov 20: NO CLASS
Nov 27: Information Elicitation


Dec 4: Libertarian Paternalism

- Problem Set 6 (individual)
- Thaler and Sunstein, *Nudge*, chapters 1-12, 16-19

Dec 11: Course Overview


TBA: final exam (probably Dec 18, but it could be any time during the exam period)