December 29, 2015

RPAD 503

Principles of Public Economics

Market Principles and Market Failures

Instructor: Stephen Weinberg

Mondays, 5:45p-9:25p

Husted 008

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 social justice 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) The ways that markets (and, in particular, market incentives) allocate resources;

ii) The distributional and justice consequences of these allocations; 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 policies for solving these failures.

Note: It is my intention to routinely dismiss class at 9:00, to somewhat offset the time I expect students to spend watching supplemental web lectures.
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.

**Students with substantial prior economics background (such as one graduate microeconomics course or two advanced undergraduate microeconomics courses) should confer with Professor Weinberg about possibly waiving RPAD 503.**

In RPAD 503, we have two main objectives:

1) to learn key general principles about how economies work, when they work well, and when they don’t work well;
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. We will also practice reading professional economics articles and extracting relevant information from real-world studies.

**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
  - Evaluating the equity and efficiency implications of policy options
  - Assessing the positive and negative implications of policy options (especially the ways in which policies can incentivize actors to change their behavior)
  - Assessing the significance of problems and solutions (especially vis-à-vis market forces)
  - 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
- We will consider the distributional impacts of economic policies across different types of constituents, especially in memo 2.

**Competency 5: to communicate and interact productively for a diverse community**
• 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. \( 3X + 2Y = 7; \ Y = 2X + 14 \)

\[
3. \quad -2 = \frac{15 - 10}{P - 4} \quad \frac{4}{4}
\]

3. \( \frac{15 - 10}{P - 4} \quad \frac{4}{4} \)

4. \( 3/X = X \)

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.\(^2\)

If you would like to review this material, you might consider the math refresher recommended for Welcome Week: Bleau, Clemens, and Clemens (2013), *Forgotten Algebra*, 4th edition, isbn 1438001509

While the tone is aimed at a younger demographic, you may also find helpful the Khan Academy’s online videos about solving equations [https://www.khanacademy.org/math/cc-eighth-grade-math/cc-8th-solving-equations](https://www.khanacademy.org/math/cc-eighth-grade-math/cc-8th-solving-equations) and solving systems of equations [https://www.khanacademy.org/math/cc-eighth-grade-math/cc-8th-systems-topic](https://www.khanacademy.org/math/cc-eighth-grade-math/cc-8th-systems-topic). Khan shows you several methods for solving systems of equations. We will use the “substitution” method in class, and that method is by far the easiest one for the problems of taxes and on externalities.

For a less thorough but less cute video of examples, see [http://www.youtube.com/watch?v=cwHR_B9zK7k](http://www.youtube.com/watch?v=cwHR_B9zK7k)

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\(^2\) 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.
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, 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.** Do NOT try to find a different version of the article. If you find an article with the same name by the same authors, but not the specified version, then you may well have the wrong draft.

Note: the library’s e-Journals tab can often find things that EBSCO cannot. Learn how to use it. Note that with the e-Journals tab you search for the journal, such as American Economic Review. Once you’ve entered the database for the journal you need, you can search or browse to the specific article you need.

Grading

30% Final Exam

20% Midterm

35% Problem Sets (7% each)

15% Memos (7.5% each)

Office Hours

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Greg Mankiw served as chair of the Council of Economic Advisers under George W Bush.
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.

You should expect to spend 10-14 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/.

Web Videos

A substantial part of the course material will be presented in the form of web videos. The videos will include substantive material that would otherwise be covered via lecture. This will free up classtime for more interactive coverage of the material. You will not be prepared for class unless you watch the assigned videos.

Some videos present conceptual material, and other videos provide examples of solving problems. I typically work each problem twice, once quickly and then once more slowly.

Please have a calculator with a square root button handy while watching the problem-based videos. You will get vastly more out of them if you attempt the problems on your own before watching the solutions.
Schedule

Section I: Markets in a Perfect World

January 25: Managing Limited Resources

February 1: Markets and Elasticities

- Mankiw chapters 1, 4-5
- Cummings, Holt, and Laury, 2003, “Using Laboratory Experiments for Policy Making: an Example from the Georgia Irrigation Reduction Auction,” Andrew Young School of Policy Studies Research Paper Series No. 06-14, posted to blackboard
- Reading Guide to Cummings et al, available on course blackboard page

February 8: Efficiency and Government Distortions of Markets

- Problem Set 1 (Individual)
- Mankiw chapter 6
- Mankiw, chapter 7
- Mankiw, chapter 8
- KSG case 1776.0, “The Coffee Crisis”

February 15: Production I

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

February 22: Production II

February 29: Regression; Economic Justice

- Problem Set 3 (individual)
- Mankiw, ch20

March 7: Midterm

- Bring a calculator with a square root button

March 14: SPRING BREAK

March 21: Economic Justice

- Articles TBA
- KSG Case 1328.0: “A Money-Losing Public Monopoly Faces a Competitive Threat: the New York City Transit Authority and the ‘Dollar Vans’”

March 22: WITHDRAWAL DEADLINE

Section II: Markets in an Imperfect World

March 28: Market Power

- Memo 1 due (team)
- Mankiw, chapters 15-16
- Reading TBA

April 4: Externalities

- Mankiw, chapter 10
- Article TBD
- Problem Set 4 (individual)
April 11: Externalities Example: Pollution Control

- KSG Case 1514, “Cleaning up the ‘Big Dirties’: the Problem of Acid Rain,” pp1-6, the section “Greens Eye the Market” (pp9-11)
- Mankiw, “Smart Taxes: an Open Invitation to Join the Pigou Club,”
  http://www.economics.harvard.edu/faculty/mankiw/files/Smart%20Taxes.pdf,
  skip “Related Externalities” and “Energy Independence” (pp19-21)
  American Economic Review 104(5): 563-68, skip sections IIB, IIC
- Problem Set 5 (team)

April 18: Public Goods and Cost Benefit Analysis

- Mankiw chapter 11
- Brooks, Leah, 2008, “Volunteering to be Taxed: Business Improvement Districts
  and the Extra-Governmental Provision of Public Safety,” Journal of Public
  Economics 92(1-2): 388-406
- Handout on PDV

April 25: Asymmetric Information

- Memo 2 (individual)
- Mankiw, chapter 22, pp468-473

May 2: Markets or Government?

- Problem Set 6 (individual)
- Roberts, The Price of Everything (whole book)

May 9: final exam (usual class time)