

UNIVERSITY OF WISCONSIN-MADISON
La Follette School of Public Affairs

PUBLIC AFFAIRS 880--Fall 2011
MICROECONOMIC POLICY ANALYSIS

Professor Isao Kamata; ikamata@lafollette.wisc.edu
(& **Professor Robert Haveman;** haveman@lafollette.wisc.edu)

TA: **Camila Casas;** casas2@wisc.edu

Course Description: This course emphasizes the nature of decision-making by consumers, firms, and governments, and the effect of these decisions on the allocation of resources--land, labor and capital. A central issue is to establish the meaning of "efficiency" in resource allocation, and to understand what is necessary if the resources in the economy are to be allocated efficiently. We will investigate the conditions under which a market economy is able to secure an efficient allocation of society's resources, and explore how the public sector has an important role to play in a market economy like that of the United States. The role of the public sector is of central concern if private markets fail. We will study the ways in which private market failure exists, and the possible response of government to this failure.

A second basic issue is to understand how the income generated by the economy's use of resources is allocated among people--workers and capital owners; highly-skilled workers and unskilled workers; rich and poor. The questions here are ones of "equity," or inequality. The public sector also has a role in altering the nation's income distribution.

A third objective is to assess the effectiveness of collective action--public policy--taken to improve economic efficiency and enhance equity. Having developed the analytical tools of microeconomics necessary to discuss efficiency and equity issues, we will apply them to a series of important contemporary public policy issues. Many of these issues involve public policy proposals, and our objective will be to understand how these proposals might affect the efficiency of the allocation of the nation's resources and equity or fairness in the distribution of income.

The course can roughly be thought of as having three segments. In the first segment, we will deal with the basic principles of consumer decision-making and the concepts of efficiency and equity, after which there will be a midterm examination. In the second section, we will work on the economics of production, costs, and different forms of market organization and their implications, and again a midterm examination will be given. The third section will deal explicitly with the economics of some larger policy issues, such as investments in people and the economics of the environment. The final exam, which follows this segment, will be a comprehensive examination.

Course Web Site: The course web site can be found on Learn@UW (<https://learnuw.wisc.edu/>). The web site includes links to the course syllabus (this document) and the readings (course e-reserves). Weekly problem sets, answer keys, supplementary readings, and other important information will also be posted on the web site over the course of the semester. The TA and the instructor will be communicating with you through e-mail class lists, and these e-mails will often direct you to the course web site.

Class Lecture Sessions: The class will meet two times per week, on Monday and Wednesday. On Monday and Wednesday, the class will meet jointly from 11:00AM to 12:15PM; either Professor Kamata or Professor Haveman will be conducting these sessions. All of the Monday and Wednesday sessions will involve formal presentations, but with questions and comments encouraged. This material will supplement the readings but will not be a substitute for them.

Monday	Joint	11:00-12:15	B302 Birge Hall
Wednesday	Joint	11:00-12:15	B302 Birge Hall

Discussion Sections: There are three discussion sections, and each student is assigned to one of these discussion sections. The TA, Camila Casas, will be responsible for the discussion sections.

DIS 302	12:00-12:50PM	Thursday	346 Birge Hall
DIS 303	11:00-11:50AM	Friday	2124 Chamberlin Hall
DIS 304	12:00-12:50PM	Friday	2124 Chamberlin Hall

In the weekly discussion section, Camila will go over the problem sets for the prior week, answer questions about the lectures during the previous week, and facilitate critical discussion of the course material. On some weeks, she will make a presentation on a topic that could not be covered in sufficient depth during the lectures.

The separate discussion sections will be similar in format and content. Should conflicts arise during a particular week, students may substitute another discussion section for the one in which they are registered.

Examinations and Grading: There will be two midterm examinations and a final examination. The midterm examinations will be given during regularly scheduled class periods. The final examination will be given at the scheduled time during the final exam period or earlier (during the week of the university's last class date). Each of the midterm exams will count for 25 percent of the course grade. The final exam will be comprehensive, and will count for 40 percent of the course grade. Hence, the exams will count for a total of 90 percent of the final course grade. Your homework performance and participation in class and discussion section will account for the remainder of the grade.

Weekly Homework / Problem Sets: There will be a problem set posted on the class web site by the 'close of business' each Wednesday. Students will complete the problem sets and hand them in at the lecture on the following Monday. This will allow four days for completing the assignment. The problem set handed in on Monday will be discussed in the discussion sections that week. While students are encouraged to discuss homework assignments with each other, the work turned in must be the student's own work. Your assignment must be turned in in class and late homework will not be accepted. The homework assignments will be 'graded' using simple check (\checkmark), check-minus ($\checkmark-$), and check-plus ($\checkmark+$) grades.

Strong Recommendation: In the past, students have found it very helpful to form 'study groups' to work through these problems, and you are strongly urged to do so this semester. The instructor (Prof. Kamata) will be pleased to help you form these groups.

Class Participation: Regular attendance at the two weekly lectures is essential to gain full benefit from the course. Attendance at discussion sections is required. Questions and discussion in the lecture and discussion sections are an integral part of the course. Attendance and active participation in the lecture and discussion sections will be reflected in the 10 percent of the course grade not accounted for by the examinations.

Required Materials:

1. The following book is a required textbook for the course:

Jeffrey M. Perloff, *Microeconomics*, 6th Edition, Addison-Wesley, 2011

2. In addition, you should subscribe to **EconWeb**, which is an on-line textbook/problems/answers/applications website. The cost of signing up for the Intro Micro (economics) portion of web course is minimal. The registration website address is <http://www.econweb.com/sub/iMicro.html>. Note: If you pull up the Syllabus page from the course web site, clicking on the EconWeb reading assignments will take you directly to them (but you need to be subscribed for the EconWeb to be linked to those materials from the syllabus). In addition, along with purchase of the Perloff's textbook, you obtain access to an on-line learning program entitled "My Econ Lab." That program contains sample exams and other materials that you may find useful; its use is at your discretion.
3. Finally, additional required readings are available through the UW Library e-reserves, which are linked from the course web site on Learn@UW. These readings are essential for class discussion in section meetings, assignments, and for following some of the lectures.

The reading assignments for each class meeting are shown on the attached schedule (see below).

Related Readings: Because we will be discussing many current issues and policies, students are expected to keep abreast of major developments in the economy as well as the emergence of new economic issues and policy proposals. The best way to follow these developments is by reading regularly *The New York Times*, or *The Wall Street Journal*, or such business publications as *Business Week* and *The Economist*.

Instructor Office Hours:

Professor Kamata	Monday	4:00-6:00 PM	Office: 6460 Social Science
Camila Casas	Thursday	10:15-11:45 AM, and by appointment	

In addition, a meeting can be arranged outside of these hours by directly contacting the instructor.

Concerns About the Course: If you have a concern about the course, please bring it to the attention of the instructor or TA. If you have a concern about the grade you receive on a homework assignment or an examination, first talk to your TA, Camila Casas. If you believe you still have a legitimate concern that has not been addressed, please provide Professor Kamata with a written explanation of your concern. The instructor will review the materials and will be in touch with you.

SCHEDULE AND READINGS (<i>tentative, as of September 1</i>)							
* The highlighted modules/lectures (with an asterisk) are by Prof. Haveman.							
Week	Date	Day	Module #	Topic	Readings (RP: E-reserved items. See the attached reading list.)		
1	Sept. 5	Mon	Labor Day: class off				
1	Sep. 7	Wed	1	Introduction to Microeconomics; Concept of tradeoffs; Supply, demand, and market equilibrium.	Perloff, Chs. 1 & 2; RP 1 & 2		
2	Sep. 12	Wed	2	Government market interventions (Quotas, Price Floors and ceilings); The shapes of the S and D curves; Elasticity; why it matters	Perloff, Ch. 3, pp. 43-59; RP 3-5		
2	Sep. 14	Wed	3	The market effects of sales/unit taxes and subsidies	Perloff, Ch. 3, pp. 59-68		
Week 2 EconWeb Assignment: Work through EconWeb (Micro): Intro (all parts); Supply and Demand (all parts); Elasticity (all parts).							
Week 2 EconWeb Current Events Assignments: Law School Applications Up U.S. Energy Usage Drug Bust							
3	Sep. 19	Mon	4	Underpinnings of Demand; Preferences, Budget Constraints; and Consumer Choice	Perloff, Ch. 4, pp. 73-99		
3	Sep. 21	Wed	5	From Consumer Choice to Demand Curves: Income and Substitution Effects	Perloff, Ch. 5, pp. 111-129		
Week 3 EconWeb Assignment: Work through EconWeb: Consumer Choice, parts 1, 2, 3, 5, 6, & 7 (i.e., skip part 4—surplus, for now).							
Week 3 EconWeb Current Events Assignments: Cigarette Tax Surf Fashions (Part 1 , Part 2) French Food Tax Mansion Demand							
4	Sep. 26	Mon	6	Some applications of consumer theory: In-kind transfers, school vouchers, excise subsidies, paying for trash	Perloff, Ch. 4, pp. 99-101; RP 6		
4	Sep. 28	Wed	7*	Capital market, discounting, and present value	Perloff, Ch. 16, pp. 542-556 & pp. 566-569		

Week 4 EconWeb Assignment:

Work through EconWeb: Consumer Choice, part 7 (income and substitution effects).

Week 4 EconWeb Current Events Assignments:

[Trashcaning PCs](#)

[Cheap Flights to Europe](#)

5	Oct. 3	Mon	8	Concepts of Economic Surplus	Perloff, Ch. 9, pp. 270-271 & pp. 275-289
5	Oct. 5	Wed	9	The welfare effects of sales/unit taxes, price floor and ceilings; Rent control and minimum wages	Perloff, Ch. 9, pp. 289-303; RP 7

Week 5 EconWeb Assignment:

Work through EconWeb: Consumer Choice, part 4 (surplus).

Week 5 EconWeb Current Events Assignment:

[Minimum Wage Increase](#)

6	Oct. 10	Mon	10	More applications of consumer theory: The effect of taxes and transfers on labor supply	Perloff, Ch. 5, pp. 136-146
6	Oct. 12	Wed	First Midterm Exam		

7	Oct. 17	Mon	11	From inputs to outputs to costs to supply: the short-run supply curve of the firm	Perloff, Ch. 8, pp. 226-248; RP 8
7	Oct. 19	Wed	12	Perfect competition in the short- and long-run; The process of 'general equilibration'	Perloff, Ch. 8, pp. 249-264; and Ch. 9, pp. 271-275; RP 9

Week 7 EconWeb Assignment:

Work through EconWeb: Production Costs (all parts); Perfect Competition (all parts).

[Note: The cost concepts/curves on which you should focus are marginal cost (MC) and average total cost (ATC). In going through Production Costs, parts 8 through 11 may be a bit confusing, but keep your eye on MC and ATC.]

Week 7 EconWeb Current Events Assignments:

[Rising Ice Cream Prices](#)

[Video Conference or Fly?](#)

8	Oct. 24	Mon	13*	Economics of Higher Education	RP 10 & 11
8	Oct. 26	Wed	14*	Economics of Higher Education—Payback website	

9	Oct. 31	Mon	15	Some applications of the competitive model: regulation-deregulation; airline deregulation; taxi medallions	Perloff, Ch. 9, pp. 285-289; RP 12
9	Nov. 2	Wed	16	The effects of market power (1): Monopoly, Natural Monopoly and price regulations	Perloff, Ch. 11, pp. 353-383
<p>Week 9 EconWeb Assignment: Work through EconWeb: Monopoly (all parts); Industry Policy (all parts).</p> <p>Week 9 EconWeb Current Events Assignments: Heat Based Soda Prices Textbook Price Discrimination Diamonds Aren't for Hoarding Microsoft Bundling Browser Microsoft Anti Trust Case</p>					
10	Nov. 7	Mon	17	The effects of market power (2): Oligopoly and the case of Cartel	Perloff, Ch. 13, pp. 436-454
10	Nov. 9	Wed	18	International trade in the partial equilibrium framework: Gains from trade, Welfare effects of tariffs, quotas, and import controls	Perloff, Ch. 9, pp. 303-308; RP 13-16
<p>Week 10 EconWeb Current Events Assignments: Tariff on Luxury Goods</p>					
11	Nov. 14	Mon	19	Externalities; Public Goods; Policy Responses	Perloff, Ch. 18 (all); RP 17 & 18
11	Nov. 16	Wed	Second Midterm Exam		
12	Nov. 21	Mon	20	Policies toward Environmental Pollution: Emissions Charges and Tradable Permits	Perloff, Ch. 18, pp. 605-622; RP 19-22
12	Nov. 23	Wed	21	Catch up and Review	
<p>Week 12 EconWeb Assignment: Work through EconWeb: Public Economics (all parts); Externalities (all parts).</p>					
13	Nov. 28	Mon	22*	Wage determination; The role of compensating variations	Perloff, Ch. 9, 285-289; RP 23
13	Nov. 30	Wed	23*	Taxes, Transfers, and Labor Supply Disincentives	RP 24 & 25

14	Dec. 5	Mon	24	Risk, Uncertainty, and Insurance	Perloff, Ch. 17, pp. 573-592
14	Dec. 7	Wed	25	Adverse Selection, Moral Hazard, Lemons	Perloff, Ch. 19, pp. 637-649; RP 26
15	Dec. 12	Mon	26	International trade in the general equilibrium framework: Introduction to comparative advantage and gains from trade	Perloff, Ch. 10, pp. 317-331; RP 27-29

Week 15 EconWeb Assignment:

Work through EconWeb: Trade (all parts—you may find some of it difficult.)

Week 15 EconWeb Current Events Assignments:

[Hurricanes/Strikes](#)

CONTENTS of E-RESERVES

Class readings are available through the links (to e-reserves) provided on the class web site (<https://learnuw.wisc.edu/>)

Reading

Number (RP)	Reference
1.	Jonathan Welsh, "Want a Used 'Econobox'? Better Get in Line: Prices of Fuel-Efficient Models Approach Those of New Cars; Is Trading Down Worth It?," <i>The Wall Street Journal</i> , July 16, 2008, page D1, available at http://online.wsj.com/article/SB121617183225056575.html .
2.	Ernesto Zedillo, "Shooting Ourselves in the Food," <i>Forbes</i> , August 11, 2008.
3.	Michael Wines, "Caps on Prices Only Deepen Zimbabweans' Misery," <i>The New York Times</i> , August 2, 2007.
4.	Hugh Rockoff, "Price Controls," available at http://www.econlib.org/LIBRARY/Enc/PriceControls.html .
5.	Greg Mankiw, "A Veto Threat," available at http://gregmankiw.blogspot.com/2007/06/veto-threat.html .
6.	Chapter 5, sections 5.1 (Excise Subsidies, Health Care and Consumer Welfare), 5.2 (Public Schools and the Voucher Proposal), and 5.3 (Paying for Garbage), from Edgar Browning and Mark Zupan, <i>Microeconomics: Theory and Application</i> , Wiley, 2002, pp. 118-128.
7.	"Can Higher Wages Be Legislated?," from Gwartney and Stroup, <i>Microeconomics</i> , Dryden Press, 7th ed., 1995, pp 378-381.
8.	Robert Haveman and Kenyon Knopf, <i>The Market System; An Introduction to Microeconomics</i> , 4th edition, pp. 94-132.
9.	Robert Haveman and Kenyon Knopf, <i>The Market System; An Introduction to Microeconomics</i> , 4th edition, pp. 171-180.
10.	Michael R. Edgmand, Ronald L. Moomaw, and Kent W. Olson, "College Education: Is It Worth the Cost?," <i>Economics and Contemporary Issues</i> , Dryden, 1994.
11.	Robert Haveman and Barbara Wolfe, "More Last Words," <i>Milken Institute Review</i> , 2nd Quarter, 2003, pp. 84-90.
12.	Chapter 10, sections 10.3 (Airline Regulation and Deregulation) and 10.4 (City Taxicab Markets), from Edgar Browning and Mark Zupan, <i>Microeconomics: Theory and Application</i> , Wiley, 2002, pp. 274-282.
13.	Chapter 10, sections 10.5 (Consumer and Producer Surplus, and the Net Gains from Trade) and 10.6 (Government Intervention in Markets: Quantity Controls; Sugar Policy), from Edgar Browning and Mark Zupan, <i>Microeconomics: Theory and Application</i> , Wiley, 2002, pp. 283-291.
14.	Paul Krugman, "A Raspberry for Free Trade," <i>Slate</i> , available at http://www.slate.com/id/1926 .
15.	Council of Economic Advisers, "Chapter 7: The History and Future of International Trade," <i>Economic Report of the President</i> , 2006, GPO, pp. 149-171.
16.	"The Doha Round...and Round...and Round," <i>The Economist</i> , July 31, 2008.
17.	Charles Whelan, "Markets Make Sense, Except When they Don't," available at http://finance.yahoo.com/expert/article/economist/24259 .

18. William Vickrey, "Principles of Efficient Congestion Pricing," available at <http://www.vtpi.org/vickrey.htm>.
19. "Issue 17: Should Pollution be Put to the Market Test?," from T. Swartz and F. Bonello, *Taking Sides: Clashing Views on Controversial Economic Issues*, Dushkin/McGraw-Hill, 2000.
20. "A New, Unregulated Market: Selling the Right to Pollute," *The New York Times*, February 6, 1993.
21. Jeff Goodell, "Capital Pollution Solution," *New York Times Magazine*, July 30, 2006.
22. United Nations Framework Convention on Climate Change (UNFCCC), "Emission Trading," available at http://unfccc.int/kyoto-protocol/mechanisms/emissions_trading/items/2731.php.
23. Chapter 17, section 17.4 (Why Wages Differ), from Edgar Browning and Mark Zupan, *Microeconomics: Theory and Application*, Wiley, 2002, pp. 468-472.
24. Congressional Budget Office, "Changes in the Economic Resources of Low-Income Households with Children," 2007, available at <http://www.cbo.gov/ftpdocs/81xx/doc8113/05-16-Low-Income.pdf>.
25. Robert Haveman, "When Work Alone is Not Enough," in Isabel Sawhill, ed., *One Percent for the Kids: New Policies, Brighter Futures for America's Children*, the Brookings Institution, 2003, Washington, DC.
26. Chapter 14, sections 14.4 (Asymmetric Information) and 14.5 (Adverse Selection and Moral Hazard), from Edgar Browning and Mark Zupan, *Microeconomics: Theory and Application*, Wiley, 2002, pp. 397-403.
27. Paul Krugman, "In Praise of Cheap Labor," *Slate*, available at <http://www.slate.com/id/1918>.
28. Federal Reserve Bank of Dallas, "Racing to the Top: How Global Competition Disciplines Public Policy," 2005 Annual Report, pp. 4-18.
29. "Case Study: Bare Feet, Hot Metal, and Globalization," from Paul Krugman and Maurice Obstfeld, *International Economics: Theory and Policy*, 8th edition, Addison-Wesley, 2009, p. 279.