

*UNIVERSITY OF WISCONSIN-MADISON*  
*La Follette School of Public Affairs*

**PUBLIC AFFAIRS 880--Fall 2007**  
MICROECONOMIC POLICY ANALYSIS

**Professor Maria Cancian; Professor Robert Haveman**  
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**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 U.S.. 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; high 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 class website can be found on Learn@UW (<https://learnuw.wisc.edu/>). The website includes links to the readings and EconWeb assignments. Weekly problem sets, answer keys, supplementary readings and other important information will be posted on the website over the course of the semester. The TA and the instructors will be communicating with you through email class lists, and these emails will often direct you to the website.

**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 1:20P to 2:45P (but, hold the time from 2:45P to 3:15P in case it is needed); either Professor Haveman or Professor Cancian 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	1:20-2:45	5231 Social Science
Monday	(just in case)	2:45 to 3:15	5231 Social Science
Wednesday	Joint	1:20 to 2:45	5231 Social Science
Wednesday	(just in case)	2:45 to 3:15P	5231 Social Science

**Discussion Sections:** There are three discussion sections, and each student is assigned to a discussion section. The TA, Fernando Louge, will be responsible for the discussion sections.

DIS 303	11:00-11:50A	R	351 Moore
DIS 302	11:00-11:50A	F	387 Van Hise
DIS 304	12:05-12:55P	F	6116 Social Science

In the weekly discussion session, Fernando Louge will go over the problem sets for the prior week. On some weeks, he will make a presentation on a topic that could not be covered in sufficient depth in the two class sessions during the previous week. There will also be time for questions regarding the material covered for the previous sessions.

The separate discussion sessions 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 either be given at the scheduled time during the final exam period or we may make an arrangement such that students could take the exam anytime during a pair of days after the end of classes. 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.

**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. Late homework will not be accepted. The homework assignments will be ‘graded’ using simple check, check–, and check+ 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. All of the instructors 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:**

The following textbook has been ordered for the course and is available for purchase at the University Bookstore.

Jeffrey M. Perloff, **Microeconomics**, Pearson Addison Wesley, 4th Edition, 2007

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 site address is <http://www.econweb.com/sub/iMicro.html>. Note: If you pull up the Syllabus page from the web, clicking on the EconWeb assignments will take you directly to them. Along with purchase of the Perloff text, you obtained 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.

Finally, additional readings are available through the website and UW Library e-reserves. 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.

**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, THE WALL STREET JOURNAL, and such business publications as BUSINESS WEEK and THE ECONOMIST. Another excellent periodical is CHALLENGE, which contains timely in-depth articles on economics written by leading economists for the general public. Still another is the JOURNAL OF ECONOMIC PERSPECTIVES, which presents excellent and slightly more sophisticated articles, written by leading economists, on current economic issues and problems.

**Instructor Office Hours:**

Fernando Louge	Friday	1:45-3:45P	Office: 7222 Social Science
Professor Haveman	Wednesday	10:00-11:00A	Office: 3 <sup>rd</sup> floor, La Follette School
Professor Cancian	Tuesday	11:00-noon	Office: 3 <sup>rd</sup> floor, La Follette School

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

**Concerns About the Course:** If you have a concern about the course please bring it to the attention of the TA or instructors. If you have a concern about the grade you receive on a homework assignment or an examination, first talk to Fernando Louge. If you believe you still have a legitimate concern that has not been addressed, please provide either Professor Haveman or Professor Cancian with a written explanation of your concern. We will review the materials and one of us will be in touch with you.

## SCHEDULE AND READINGS

DATES	TOPICS	READINGS
<i>Week 1</i>		
Sept. 5—Wednesday (Professor Cancian will conduct the class.)	Introduction to Microeconomics; Concept of tradeoffs; Supply, demand, and market equilibrium. Government market interventions (Quotas, Price Floors, and Ceilings)	Perloff—Ch. 1 and 2 RP—1 2, 3, 4, and 5
<i>Week 2</i>		
Sept. 10—Monday (Professor Cancian)	The shapes of the S and D curves; Elasticity; why it matters	Perloff—Ch. 3, 46-60
Sept. 12—Wednesday (Professor Cancian)	The market effects of sales/unit taxes and subsidies	Perloff—Ch. 3, 60-70
<b>Week 2 EconWeb Assignment</b> Work through EconWeb, Consumer Choice; taxation (until ‘surplus’)		
<b>Week 2 EconWeb Current Events Assignments:</b> <a href="#">Law School Applications Increase as Opportunity Costs Fall</a> <a href="#">U.S. Energy Usage</a> <a href="#">Major Methamphetamine Bust</a> <a href="#">Cigarette Tax Hikes</a>		
<i>Week 3</i>		
Sept. 17—Monday (Professor Cancian)	Underpinnings of Demand: Preferences, Budget Constraints, and Consumer Choice	Perloff—Ch. 4
Sept. 19—Wednesday (Professor Cancian)	From Consumer Choice to Demand Curves: Income and Substitution Effects	Perloff—Ch. 5, 106-122
<b>Week 3 EconWeb Current Events Assignments:</b> Surf Inspired Fashions For Women ( <a href="#">Part 1</a> , <a href="#">Part 2</a> ) <a href="#">French Chefs Protest Tax on Restaurant Meals</a> <a href="#">The Rich Get Richer, and Buy Mansions</a>		
<i>Week 4</i>		
Sept. 24—Monday (Professor Cancian)	Some applications of consumer theory: The effect of taxes and transfers on labor supply	Perloff, Ch. 5, 129-139
Sept. 26—Wednesday (Professor Cancian)	Some applications of consumer theory: In-kind transfers, school vouchers, excise subsidies, paying for trash.	Perloff—Ch. 4, 99-102; RP 6
<b>Week 4 EconWeb Assignment:</b> Work through EconWeb Labor Supply [incl: indifference curve analysis]		
<b>EconWeb Current Events Assignment:</b> <a href="#">PCs Increasingly Find Their Way to the Trash Heap</a>		
<i>Week 5</i>		
Oct. 1—Monday	More applications of consumer theory: In-kind	Perloff—Ch. 4, 99-102; RP 6

(Professor Haveman)	transfers, school vouchers, excise subsidies, paying for trash	
Oct. 3—Wednesday (Professor Haveman)	Concepts of Economic Surplus	Perloff—Ch. 9, 264-279; RP 7
<b>Week 5 <u>EconWeb Assignment</u></b> Work through EconWeb: Industry Policy (all parts) and EconWeb Consumer Choice; surplus. <u>EconWeb Current Events Assignment:</u> <a href="#">CHEAP FLIGHTS TO EUROPE</a>		
<i>Week 6</i>		
Oct. 8—Monday (Professor Haveman)	The welfare effects of sales/unit taxes, price floors, and ceilings; Rent control and minimum wages.	Perloff—Ch. 9, 284-293; RP 7
Oct. 10—Wednesday (Professor Haveman)	Welfare effects of tariffs, quotas, and import controls	Perloff—Ch. 9, 294-300; RP 7
<b>Week 6 <u>EconWeb Assignment:</u></b> Work through EconWeb: Trade; all parts (you may find some of it difficult.) and EconWeb Consumer Choice; taxation <u>Week 6 EconWeb Current Events Assignments:</u> <a href="#">MINIMUM WAGE INCREASE</a> <a href="#">TARIFF ON LUXURY GOODS</a> <a href="#">VIDEO CONFERENCE OR FLY?</a>		
<i>Week 7</i>		
Oct. 15—Monday (Professor Haveman)	Gains from Trade; Comparative Advantage: An Introduction	Perloff—Ch. 10; 313-327
<b>Week 7 <u>EconWeb Assignment:</u></b> Again, work through EconWeb: Trade; all parts; you may find some of it difficult.		
Oct. 17—Wednesday	FIRST MIDTERM EXAM (covers material through Oct. 15)	
<i>Week 8</i>		
Oct. 22—Monday (Professor Cancian)	Risk, Uncertainty and Insurance	Perloff, Ch. 17, 574-594
Oct 24—Wednesday (Professor Cancian)	Adverse Selection, Moral Hazard, Lemons	Perloff, Ch. 19, 636-647; RP 8
<i>Week 9</i>		
Oct 29—Monday (Professor Cancian)	Wage determination; The role of compensating variations	Perloff, Ch. 9, 279-284 RP 9
Oct 31--Wednesday (Professor Haveman)	From inputs to outputs to costs to supply—The short run supply curve of the firm	RP 10
<b>Week 9 <u>EconWeb Assignment:</u></b> 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). The examples in EconWeb also involve average variable cost (AVC) and average fixed cost (AFC) concepts/curves. These		

<p>are also important concepts/curves, but we will not emphasize them in the course; do not get bogged down in them. In going through EconWeb, Production Costs, sections 8-10 may be a bit confusing, but keep your eye on MC and ATC. In going through EconWeb, Perfect Competition, section 5 may be a bit confusing; also section 8 has some variable and fixed costs floating around that might also be confusing.]</p> <p><b><u>EconWeb Current Events Assignment:</u></b>  <a href="#">RISING ICE CREAM PRICES</a></p>		
<b>Week 10</b>		
Nov 5—Monday (Professor Haveman)	Perfect competition in the short- and long-run; The process of ‘general equilibration’	Perloff, Ch. 8; RP 11
Nov 7—Wednesday (Professor Haveman)	Some applications of the competitive model: regulation-deregulation; airline deregulation; taxi medallions	Perloff, Ch. 9, 279-284; RP12
<p><b>Week 10 EconWeb Assignment:</b>          Work through EconWeb: Perfect Competition, Long Run Supply  <b>Week 10 EconWeb Current Events Assignments:</b>  <a href="#">CHEAP LEATHER CLOTHES</a>  <a href="#">DRUG BUST</a></p>		
<b>Week 11</b>		
Nov 12—Monday (Professor Haveman)	Monopoly and oligopoly: The effects of market power	Perloff, Ch. 11, 345-353; Ch. 13, 419-442
Nov. 14—Wednesday	SECOND MIDTERM EXAM (covers material through Nov. 12)	
<p><b>Week 11 EconWeb Assignment:</b>          Work through EconWeb: Monopoly  <b>Week 11 EconWeb Current Events Assignments:</b>  <a href="#">HEAT BASED SODA PRICES</a>  <a href="#">TEXTBOOK PRICE DISCRIMINATION</a>  <a href="#">DIAMONDS AREN'T FOR HOARDING</a>  <a href="#">MICROSOFT BUNDLING BROWSER</a>  <a href="#">MICROSOFT ANTITRUST CASE</a></p>		
<b>Week 12</b>		
Nov. 19—Monday (Professor Haveman)	Free Trade: Some Policy Issues	RP 13, 14, and 15
Nov. 21—Wednesday (Professor Haveman)	Capital market, discounting, and present value	Perloff, Ch. 16, 542-558
<p><b>Week 12 EconWeb Assignment:</b>          Work through EconWeb, Trade, Trade Restrictions</p>		
<b>Week 13</b>		
Nov. 26—Monday (Professor Haveman)	Economics of Higher Education	RP 16, 17
Nov. 28—Wednesday (Professor Cancian)	Household investments in education and household labor supply	RP 18

<i>Week 14</i>		
<b>Dec. 3—Monday (Professor Cancian)</b>	<b>Taxes, Transfers, and Labor Supply Disincentives</b>	<b>RP 19, 20</b>
<b>Dec. 5—Wednesday (Professor Cancian)</b>	<b>Externalities; Public Goods; Policy Responses</b>	<b>Perloff, Ch. 18, 602-620 RP 21, 22</b>
<b>Week 14 <u>EconWeb Assignment:</u> Work through <u>EconWeb</u>: Public Economics, sections 2 (Public Goods) and 3 (Optimal Provision)</b>		
<i>Week 15</i>		
<b>Dec. 10—Monday (Professor Haveman)</b>	<b>Policies toward Environmental Pollution: Emissions Charges and Tradeable Permits</b>	<b>Perloff, Ch. 18, 602-620 RP 23, 24, 25</b>
<b>Dec. 12—Wednesday (Professor Haveman)</b>	<b><u>Continued</u>: Policies toward Environmental Pollution: Emissions Charges and Tradeable Permits</b>	<b>Perloff, Ch. 18, 602-620 RP 23, 24, 25</b>
<b>Week 15 <u>EconWeb Assignment:</u> Work through <u>EconWeb</u>: Externalities; all parts</b>		

## CONTENTS of E-RESERVES

Class readings are available at the UW Library e-reserves (accessible through [Learn@UW](http://Learn@UW) or directly at <https://courses.library.wisc.edu/ereserves2/index.php?iSectionID=108216596A1001>)

<b>Reading Number</b>	<b>Reference</b>
1.	Paul Heyne, "Moral Criticisms of Markets," <u>Senior Economist</u> , pp. 2-6, April, 1995
2.	Chris Tilly, "Shaking the Invisible Hand," <u>Real World Economics</u> pp. 90-92
3.	Michael Wines, "Caps on Prices Only Deepen Zimbabweans' Misery," <u>New York Times</u> August 2, 2007.
4.	"Myths of Economics: Rent Controls," from Gwartney and Stroup, <u>Microeconomics</u> , Dryden Press, 7th ed., 1995, pp. 80-81
5.	"Can Higher Wages Be Legislated?" from Gwartney and Stroup, <u>Microeconomics</u> , Dryden Press, 7th ed., 1995, pp 378-381
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, <u>Microeconomics: Theory and Application</u> , Wiley, 2002, pp. 118-128
7.	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, <u>Microeconomics: Theory and Application</u> , Wiley, 2002, pp. 283-291
8.	Chapter 14, sections 14.4 (Asymmetric Information) and 14.5 (Adverse Selection and Moral Hazard), from Edgar Browning and Mark Zupan, <u>Microeconomics: Theory and Application</u> , Wiley, 2002, pp. 397-403
9.	Chapter 17, section 17.4 (Why Wages Differ), from Edgar Browning and Mark Zupan, <u>Microeconomics: Theory and Application</u> , Wiley, 2002, pp. 468-472
10.	Robert Haveman and Kenyon Knopf, <u>The Market System: An Introduction to Microeconomics</u> , fourth edition, pp. 94-132
11.	Robert Haveman and Kenyon Knopf, <u>The Market System: An Introduction to Microeconomics</u> , fourth edition, pp. 171-180.
12.	Chapter 10, sections 10.3 (Airline Regulation and Deregulation) and 10.4 (City Taxicab Markets), from Edgar Browning and Mark Zupan, <u>Microeconomics: Theory and Application</u> , Wiley, 2002, pp. 274-282
13.	Paul Krugman, "What do Undergrads Need to Know about Trade?" Chapter 8, <u>Pop Internationalism</u> , MIT Press, 1997
14.	Council of Economic Advisers, <u>Economic Report of the President</u> , 2006, GPO, pp. 149-171
15.	Federal Reserve Bank of Dallas, "Racing to the Top: How Global Competition Disciplines Public Policy." 2005 Annual Report, pp. 4-18
16.	Michael R. Edgmand, Ronald L. Moomaw, and Kent W. Olson, "College Education: Is It Worth the Cost?" <u>Economics and Contemporary Issues</u> , Dryden, 1994
17.	Robert Haveman and Barbara Wolfe, "Does Education Matter: More Last Words" <u>Milken Institute Review</u> , 2 <sup>nd</sup> Quarter, 2003, pp. 84-90

18. Francine D. Blau and Lawrence M. Kahn (2007) "The Gender Pay Gap," *The Economists' Voice*: Vol. 4 : Iss. 4, Article 5.
19. Nancy Cauthen, "When Work Doesn't Pay: What Every Policymaker Should Know." National Center for Children in Poverty, Research Brief, June, 2006
20. Robert Haveman, "When Work Alone is Not Enough." In One Percent for the Kids: New Policies, Brighter Futures for America's Children. Edited by Isabel Sawhill. Washington, DC: The Brookings Institution, 2003
21. Nancy Folbre, "Children as Public Goods." American Economic Review 84(2) pp. 86-90. 1994
22. Paula England, "Emerging Theories of Care Work." Annual Review of Sociology
23. 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, pp. 336-357
24. New York Times, 2/6/93, "A New, Unregulated Market: Selling the Right to Pollute."
25. Jeff Goodell, "Capital Pollution Solution." New York Times Magazine, July 30, 2006.