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

**PUBLIC AFFAIRS 880--Fall 2017**  
MICROECONOMIC POLICY ANALYSIS

**Professor Jason Fletcher: jfletcher@lafollette.wisc.edu**  
**TA: Hyunseok Kim: hkim659@wisc.edu**

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**Course Description:**  
This course is a first course in microeconomic analysis. While the material will be accessible to students with no economics background, we will cover some topics at the intermediate level. This course will develop a conceptual framework for analysis and apply this framework to real-world issues. We will examine the choices of both individuals and of firms in a variety of market environments. By the end of the course, students should (1) be familiar with the basic tools of microeconomic analysis, (2) have an understanding of their usefulness and limitations, and (3) have experience applying these tools to issues of public policy.

This course emphasizes the nature of decision-making by consumers, firms, and governments, and the effect of these decisions on the allocation of resources. A central issue is to define the meaning of "efficiency" in resource allocation to establish a best-case scenario that can then be compared across a variety of policy options. 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. 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.

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 focus on 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 structure. The third segment focuses on specific topics that the tools of applied microeconomics can be used to analyze.
Course Website: The course website can be found on Learn@UW (https://learnuw.wisc.edu/). The website includes 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 website over the course of the semester. The course website shows the list of “News,” where the instructor will post important course-related announcements. The TA and the instructor will also be communicating with you through e-mail class lists, and these e-mails will often direct you to the course 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 11:00AM to 12:15PM; Professor Fletcher will be conducting these sessions. All of the Monday and Wednesday sessions will involve formal presentations, but with questions and comments encouraged.

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<tr>
<td>Monday</td>
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<td>11:00AM–12:15PM</td>
<td>PSYCHOLOGY 103</td>
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<tr>
<td>Wednesday</td>
<td>Joint</td>
<td>11:00AM–12:15PM</td>
<td>PSYCHOLOGY 103</td>
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Discussion Sections: There are three discussion sections, and each student is assigned to one of these discussion sections. The TA, Hyunseok Kim, will be responsible for the discussion sections.

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<tr>
<td>DIS 301</td>
<td>12:05-12:55 PM</td>
<td>Friday</td>
<td>SOC SCI 6314</td>
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<td>DIS 302</td>
<td>5:00-5:50 PM</td>
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<td>SOC SCI 6109</td>
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<td>DIS 303</td>
<td>1:30-2:20 PM</td>
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In the weekly discussion section, Hyunseok 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, he 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 scheduling 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 (see below for date/time). Each of the midterm exams will count for 20 percent of the course grade. The final exam will be comprehensive (i.e., cumulative), and will count for 40 percent of the course grade. Hence, the exams will count for a total of 80 percent of the final course grade. Your homework performance, participation in class and discussion section, and Podcast assignments will account for the remainder (i.e., 20 percent) of the course grade.

Weekly Homework / Problem Sets: With some exceptions, 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 before the start of class and late homework will not be accepted. The homework assignments will be ‘graded’ using simple check (v), check-minus (v–), and check-plus (v+) grades.

In addition to the problem sets, students are required to contribute to the discussion (both questions and answers) on the course Piazza group—full credit requires approximately 2 posts per week.
Podcasts. Many lectures will also have a podcast of related material. You will listen to at least one podcast during the semester and write a short (<1 page) memo about the key ideas in the podcast that intersect with 880 and any implications for ongoing policy debates. If a specific policy is described, be sure to outline winners and losers of the policy. In addition to the memo, students will also create an exam question based on the content of the podcast and be prepared to discuss the basic ideas of the podcast during class or discussion section. These assignments are due 2 days following the podcast assignment date. Sign up on the Google Doc here: http://bit.ly/2r1pNxi

Strong Recommendation: In the past, students have found it very helpful to form study groups to work through these problems. The instructor can assist you in forming these groups.

Class Participation: Regular attendance at the two weekly lectures is essential to gain the full benefit from the course. Attendance at discussion sections is required.

Required Materials:

1. The following book is the recommended textbook for the course:

   The 6th Edition is on reserve at the Social Science Library (8th floor)

The readings assignments for each class meeting are shown on the attached class schedule (below). The readings are collected in folders at the Learn @UW class website. Many class sessions also have Khan Academy links for additional ways of learning the content. See also this excellent Online Course.

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, or such business publications like The Economist. We will also be using Piazza to facilitate class discussion this fall to post and react to relevant new stories. The instructor recommends regularly following a podcast such as The Weeds or Freakonomics.

A final note on the readings: in general, I suggest prioritizing the text book, lecture notes, journal articles (especially toward the end of the semester) for proficiency in the topics/ideas. The Khan Academy videos are meant to help you if you are having trouble or would like another perspective on the basic concepts. The popular-press readings (i.e. Slate articles) are meant to further tie the concepts to real world and interesting applications, but some students feel bogged down when doing all the readings each week, so it is fine to skim these readings.

Instructor Office Hours:
Jason Fletcher       Tuesdays       10:00-11:30AM or by Appt       Office: 4430 Social Science
Hyunseok Kim        Thursdays      2:30- 4:30PM or by Appt          Office: XX Taylor Hall

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, Hyunseok Kim. If you believe you still have a legitimate concern that has not been addressed, please provide Professor Fletcher with a written explanation of your concern. The instructor will review the materials and will be in touch with you.
1. September 6:
Introduction to the Course: The Economic Problem: Production Possibilities, Concept of Tradeoffs
Landsburg, SE. “Do the Poor Deserve Life Support.” Slate 2006
Barro: “Pleading the Case”.

Khan: [Opportunity Costs](#)

**Big Idea:** Opportunity Costs

2. September 11
Marginal Analysis, Supply, Demand, and Market Equilibrium.
Perloff, Chs. 1 & 2;
Landsburg, SE. “Giving Your All.” Slate 1997
Economist, Proof that you should get a life, December 2014

**Big Idea:** Marginal Analysis, Sunk Costs

Khan Academy Links: [Marginal Benefits and Efficiency](#), [Marginal Utility](#), [Demand and Supply](#)
Supply and Demand: [Simulation](#) Game

Podcast: Freakonomics: [What are we waiting for?](#)
Podcast: Freakonomics [Chuck E. Cheese’s: Where a Kid Can Learn Price Theory](#)

3. September 13
Shifts in Supply and Demand; Government Market Interventions (Quotas, Price Floors and Ceilings);

Perloff, Ch. 3, pp. 43-56;
Greg Mankiw, “A Veto Threat,”
Slate, Legalized Prostitution
Economist, The baseball-card bubble, December 2014

Khan Academy: [Minimum Wages and Price Floors](#)
Marginal Revolution: [Supply and Demand and Interlinked Markets](#)

4. September 18
the Shapes of the S and D curves; Elasticity; why it matters
Perloff, Ch. 3, pp. 58-68
Grim, R. “Who’s Got the Acid?” Slate, 2004

Marginal Revolution: [Elasticity](#) Khan Academy: [Elasticity](#)

Podcast: NPRs Hidden Brain: [Your Brain on Uber](#)

5. September 20
Concepts of Economic Surplus, Price Floor and Ceilings; Rent Control and Minimum Wages

Perloff, Ch. 9, pp. 267-295
"Is Santa a Deadweight Loss?” The Economist, 2001
Economist, Why some economists oppose minimum wages, January 2014

Marginal Revolution: Price Ceilings and Floors

Podcast: Slate Money Episode 114 segment on NBA Salary Caps (starting around 17 mins)
Podcast: The Weeds Minimum Wage (starting around 56 mins)
Podcast: The Weeds Christmas Gifts (starting around 45 mins)
Podcast: Housing Prices: The Wonk Why is my rent so high?
Podcast: The Weeds Seattle Minimum Wage Debate

6. September 25
The Market and Welfare Effects of Sales/Unit Taxes and Subsidies
Some Applications of Consumer Theory: In-kind Transfers, School Vouchers, Excise Subsidies, Paying for Trash; Evaluating government policies: Surpluses and Shortages

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, Microeconomics: Theory and Application, Wiley, 2002, pp. 118-128.
Friedman, D. Hidden Order: The Economics of Everyday Life. Chapter 4 and 7 (skim)

Khan: Producer and Consumer Surplus
Marginal Revolution: Taxes and Subsidies


Big Idea: Incidence

7. September 27 (Class ends at noon)
Market Failures: Welfare Loss of non-Intervention and Externalities Introduction

Perloff, Ch. 18;
Landsburg, S. “Property is Theft.” Slate 1997
Landsburg, SE. “No Parking Anytime.” Slate 2007
NY Times, The Inevitable, Indispensable Property Tax, July 2015

Khan: Negative Externalities
Marginal Revolution: Externalities
8. October 2
Negative externalities and policy responses

Handout discussion on tobacco policy: comparing supply restrictions, to “perfect” and “imperfect” tax policies.

Additional Reading
Gruber, J. “The Economics of Tobacco Regulation.” Health Affairs, 2002 Vol 21(2).
Podcast: Slate Money: Congestion Pricing in London

9. October 4
Positive Externalities and Public Goods

Marginal Revolution: Public Goods

10. October 9 [MIDTERM 1]

11. October 11
From Inputs to Outputs to Costs to Supply: the Short-run Supply Curve of a Firm
Perloff, Ch. 7, Ch. 8, pp. 237-253;
Barro, R. “Attention Consumers: Creativity Never Comes Cheap.” Business Week, 2000

Khan: Marginal and Average Costs
Podcast: Food costs in the agricultural sector: EconTalk

12. October 16
Perfect Competition in the Short- and Long-run; the Process of 'General Equilibration'
Perloff, Ch. 8, pp. 220-236; and Ch. 9, pp. 262-266;
Chapter 10, sections 10.3 (Airline Regulation and Deregulation) and 10.4 (City Taxicab Markets), from Edgar Browning and Mark Zupan, Microeconomics: Theory and Application, Wiley, 2002, pp. 274-282.

Khan: Perfect Competition
Marginal Revolution: Competition, Profit Maximization and Entry/Exit

Podcast: EconTalk Technology and Innovation in Health Care

13. October 18
Monopoly
Perloff, Ch. 11 (through p 373)
Friedman, D. Hidden Order: The Economics of Everyday Life. Chapter 10: Monopoly for Fun and Profit
Becker, G. “Cracking the Genetic Code: Competition was the Catalyst.” Business Week, 2000
14. October 23
Natural Monopoly and Price Regulations. Price Discrimination, Oligopoly
Perloff, Ch. 13 (through p. 456, skim the rest)
Marginal Revolution: Price Discrimination
Podcast: Price Discrimination in Airfares: Slate Money Up in the Air

15. October 25 (Sarah Stillman Discussion)
Game Theory/Strategy
Perloff, Ch 14. (through p 477, skim the rest if interested)
Friedman, D. Hidden Order: The Economics of Everyday Life. Chap 11, “Hard Problems: Game Theory, Strategic Behavior and Oligopoly”
“Pricking Consciences.” The Economist, 2007
Khan: Nash Equilibrium
Podcast: The Weeds March Madness (starts around 33 mins)
Podcast: Radiolab Lose Lose

16. October 30
Cost-Benefit Analysis, Discounting, and Present Value;
Perloff, Ch. 16
“The Price of Prudence.” The Economist, 2004
Brennan, “Discounting the Future: Economics and Ethics”

**November 1: No Class Meeting Today and No Discussion Sections This Week

17. November 6
Risk and Expected Value

Perloff, Ch. 17
Fisman, R. “The Bad Economics of Switching Health Care Plans.” Slate

18. November 8
Cost-Benefit Analysis and Policy Issues

The Contingent Value Debate

Problems with Contingent Valuation (from dubious to hopeless)

NY Times: New Calculus of Smoking

19. November 13 *(MIDTERM 2)*

*Final Topics Module*: International Trade, Education, Health Care, Environmental Policies, Labor Market Outcomes

20. November 15
   Labor Market
   Substitution and Income Effects, Signaling, Human Capital

   Podcast: Freakonomics *How Safe is Your Job?*
   Podcast: The Weeds *Free College*

21. November 20
   International Trade in the Partial Equilibrium Framework: Gains from Trade, Welfare Effects of Tariffs, Quotas, and Import Controls, Two country welfare analysis

22. Perloff, Ch. 9, (p. 295-end of chapter);
   The Doha Round...and Round...and Round,” *The Economist*, July 31, 2008.

   **Big Idea:** Comparative Advantage

   Khan: *Gains from Trade*
   Marginal Revolution: *Trade*

   Podcast: [David Autor on Trade, China and US Labor Markets](http://example.com)
   Podcast: [Slate Money Pushing People Out](http://example.com) Free Trade Segment
   Podcast: The Weeds *China Shock*

**November 22: No Class Meeting**
23. November 27
Economics of Higher Education
Perloff Chapter 19 (p 638-646)
Payback Website

Big Idea: Signaling and Investments of Human Capital

Podcast: Marginal Revolution: Labor Markets, Human Capital, Compensating Differentials and Unions

24. November 29
Adverse Selection, Moral Hazard, Lemons

Perloff, Ch. 19 (through p. 637), Ch. 20 (skim)
Kuttner, R. “How to Undermine an Ownership Society.” Business Week, 2004
Landsburg, SE. The Armchair Economist. Chapter 3: Truth or Consequences
Gruber Lecture Video
Podcast: Marginal Revolution: Asymmetric Information, Moral Hazard, Signaling
Podcast: Klein and Roy debate: Ezra Klein Show

25. December 4
Policies toward Environmental Pollution: Emissions Charges and Tradable Permits
Perloff, Ch. 18, pp. 605-622;

Podcast: Marginal Revolution: Coase Theorem and Tradable Permits
Podcast: Effects of Lead: The Weeds Long Term Impacts of Lead Exposure (starts around 45mins)
26. December 6
Inequality


Video Conversation between Robert Lucas and Paul Krugman
Podcast: The Weeds *Why Inequality Matters*
Podcast: The Weeds *Universal Basic Income*

27. December 11
ACA discussion

Gruber:
https://www.youtube.com/watch?v=pmolioUkIXI
https://www.youtube.com/watch?v=0gOktz_vEfQ
https://www.youtube.com/watch?v=AqHz2XcUGok

APPAM
https://vts.inxpo.com/scripts/Server.nxp?LASCmd=L:0&AI=1&ShowKey=22234&LoginType=0&InitialDisplay=1&ClientBrowser=0&DisplayItem=NULL&LangLocaleID=0

NY Times, How Medical Care Is Being Corrupted, November 2014

28. December 13
Applying Concepts to Policy Analysis


Alan Krueger thoughts on the intersection of economics and policy
https://youtu.be/wEMA9gXy80
https://youtu.be/VnWsZQxsMiU

FINAL EXAM: Wednesday December 20, 2017 between 7:45-9:45AM. Room TBD