

## *Microeconomics for Public Policy*

### **Instructors:**

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### **Teaching assistant:**

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### **Office hours:**

TBA

### **Number of credits: 2**

### **Course Description:**

Microeconomics is a branch of economics that focuses on the question how individuals (or households) and firms make decisions to allocate limited resources in market interactions. Individual choices and private interests are behind most socio-economic processes. The understanding of the behavioral aspects of socio-economic processes is indispensable for good policymaking. This course provides a sound microeconomic foundation for students wishing to become proficient civil servants, policy experts, or analysts in the field of public policy. It will equip the students with a thorough understanding of the microeconomic theory and thus enable them to understand and analyze socio-economic processes and relationships as driven by economic behavior at the micro level. Throughout the course, specific public policy issues will be studied with the objective to motivate and demonstrate the pertinence of economic analysis for sound public policy making.

### **Objectives and outcomes**

The course fosters a comprehensive understanding of the theoretical micro-foundations of economic behavior and their repercussions for sound policy making. By the end of the course, a successful student will be equipped with an effective toolset to understand and analyze public policy issues and proposals from the microeconomic perspective. Students shall improve their analytical skills through assignments fostering theoretical as well as applied policy aspects; and their argumentative skills through in-class discussions and a simulated policy debate class.

### **Course structure**

The course consists of four blocs: Microeconomic Actors and Choice; Markets and Policies; Market Failures and Imperfections; and Microeconomic Policy Debate.

A two-hour (100 minute) class will take place each week, unless announced otherwise. Interactive lectures will serve to explain and discuss the core course material. Throughout the course and especially during the last part of the course (microeconomic policy debate) emphasis will be put on skills relevant for understanding and analysis of, and engagement in, practical policy challenges.

## **Grading**

Evaluation will be based on the ability to make use of the material covered in the course and draw on the relevant theory to analyze policy issues.

The final course grade will be calculated as a weighted average of the following components:

Final Exam (open book) – 70%

Microeconomic Policy Debate – 30%

Participation in the Final Exam and Microeconomic Policy Debate is mandatory.

Note that the course is not intended to foster encyclopedic knowledge, nor memorization of the study material. Rather, it prepares students to understand and analyze real-world economic problems. Therefore, exam questions will be open and will be of the type that journalists, policy makers and politicians may ask in real situations.

Several practice problem sets will be distributed during the course to facilitate preparation for the exam. These will not be graded. Macroeconomic Policy Debate guidelines to be circulated separately.

- Attendance is mandatory and will be checked.
- Given the concentration of material, you are strongly encouraged to read the assigned chapters prior to lectures.
- Exam date will be announced in due course
- Make-up for the exam/assignments will be allowed only if there is a valid university excuse. In case of any serious condition precluding taking the exam/submitting an assignment by the announced deadline the instructor/s must be notified in advance, as soon as the condition is known to the student.
- Assignments and assignment deadlines will be announced in due course. Assignments submitted late will be graded down by 50%. Submitting each assignment is a prerequisite for passing the course.
- The policy of zero tolerance to academic dishonesty (defined in the student manual and in CEU's code of ethics) will be strictly applied.
- It is strongly recommended that students take every assignment and exam seriously. There is no chance to make up for forgone points, other than permitted by the CEU rules on retaking a course.
- It is the student's responsibility to understand these rules and consult the instructor in case of any doubts; as well as in case of any problems with understanding the studied topics.

## **Course Readings**

Required readings for all students are specified in the course outline and are primarily based on:

- <http://core-econ.org/> (hereafter CORE)

- <https://core-econ.org/espp/> (hereafter ESPP)
- Mankiw, Gregory. *Principles of Economics*. The Dryden Press, 1998 (hereafter GM)
- Lecture notes (including any material not covered in ESPP, GM or CORE)

Supplementary material for advanced students (not required):

- D. Besanko and R. Braeutigam, *Microeconomics: An Integrated Approach*, John Wiley and Sons, 2002 (hereafter BB)
- H.R. Varian, *Intermediate Microeconomics: A modern approach*, W. W. Norton & Company
- James, D. Morrow. *Game Theory for Political Scientists*, Princeton University Press, 1994
- E. Caves, J. Frankel and R. Jones. *World Trade and Payments*, Addison Wesley, 2001
- H. Rosen, *Public Finance*, McGraw-Hill, 2004

CORE material is available upon registration at <http://core-econ.org/>. The necessary material from the MG book will be made available on the e-learning platform. Several copies of the BB book are available in the library. Older editions of the book can also be used.

## Course Outline

INTRODUCTION (1 class, Kahanec)

- (1) The Capitalist Revolution; Technology, Population, and Growth  
 Required: CORE 1, 2  
 Supplementary: GM1, GM2

BLOC I: Microeconomic Actors and Choice (3 classes, Kahanec)

- (2) Scarcity, Work, and Choice  
 Required: CORE 3  
 Supplementary: Chapters 3, 4, 5 of H.R. Varian, *Intermediate Microeconomics: A modern approach*, W. W. Norton & Company
- (3) The Firm as an Organization  
 Required: CORE 6  
 Supplementary: Oliver E. Williamson, *The Theory of the Firm as Governance Structure: From Choice to Contract*. *The Journal of Economic Perspectives* Vol. 16, No. 3 (Summer, 2002), pp. 171-195
- (4) The Firm and its Customers  
 Required: CORE 7  
 Supplementary: GM13

BLOC II: Markets and Policies (5 classes, Kahanec)

- (5) The Market Forces of Supply and Demand, Efficiency, Welfare  
Required: CORE 8, GM7  
Supplementary: GM 4 and 5, CORE 9, Neumark, D. Employment effects of minimum wages. IZA World of Labor 2014:6 doi: 10.15185/izawol.
- (6) The Costs of Taxation  
Required: GM 8  
Supplementary: Blundell, R. How responsive is the labor market to tax policy?. IZA World of Labor 2014: 2 doi: 10.15185/izawol.2
- (7) READING WEEK: Empirical Project “Measuring the Effect of a Sugar Tax”  
<https://www.core-econ.org/doing-economics/book/text/03-01.html>
- (8) International Trade and Trade Policy  
Required: GM 9  
Supplementary: Winters, L. International trade regulation and job creation. IZA World of Labor 2014: 75 doi: 10.15185/izawol.75

BLOC III Market Failures and Imperfections (3 classes, Brown)

- (9) Monopoly power  
Required: selected topics from GM 15, 16, 17 (selected topics)  
Supplementary: Bryson, A. Union wage effects. IZA World of Labor 2014: 35 doi: 10.15185/izawol.35
- (10) Public Goods, Information Asymmetry  
[half of the class for policy debate preparation]  
Required: CORE 12  
Supplementary: Akerlof, G. 1970. The Market for “Lemons”: Quality, Uncertainty and the Market Mechanism. The Quarterly Journal of Economics, 84(3): 488-500.
- (11) Risk and Uncertainty  
Required: selected topics from CORE 11, 15.  
Supplementary: Chapter 12 of H.R. Varian, Intermediate Microeconomics: A modern approach, W. W. Norton & Company

BLOC IV: Microeconomic Policy Debate (1 class, both instructors)

- (12) Policy Debate
- (13) Exam

### **Policy Debate**

Students will have an opportunity to practice their microeconomic analytical skills in a simulation of real-life policy debate. The exercise is based on intensive group work and consists of in-class debate over a policy issue. Six groups, each consisting of about 10-12 students, will be formed. Each group will be further divided into two subgroups (5-6 members). One sub-group will make a policy proposal advocating in favor of the policy proposal. The other sub-group will provide a critique arguing against the policy proposal.

The advocacy in favor of as well as against the measures with respect to a particular policy issue should rely on the material covered in the class throughout the duration of the course.

Week 10 will provide for joint work in groups and discussions with the instructor. In Week 12, the debates will take place between the groups of proponents and opponents, with each debate lasting 50 minutes. Detailed instructions about the selection into groups and requirements of the written policy proposals will be circulated in due time.