

Economic Analysis for Public Policy

Fall 2019

School of Public Policy

Central European University

No. of credits: 4

Course e-learning site: [CEU Moodle](#)

Mondays, Okt.6 x 7, Room 234 [Group 1 : 13:30 – 15:10 & Group 3: 15.30 - 17.10]

Tuesdays, Okt.6 x 7, Room 234 [Group 2: 11:00 – 12:40]

Tuesdays, Okt.6 x 7, Room 234 [Group 1 : 13:30 – 15:10]

Wednesdays, Okt.6 x 7, Room 234 [Group 3: 11:00 – 12:40 & Group 2: 15.30 - 17.10]

Instructors: Cait Brown (brownc@spp.ceu.edu), Michael Dorsch (dorschm@spp.ceu.edu) &
Anand Murugesan (murugesana@spp.ceu.edu)

Office hours: Anand – Wednesdays 13.30 - 14.30 (or by appointment), Okt6*7, 237

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Office hours: TBA

Course description

The course trains students to use concepts from microeconomic theory to analyze public policy issues and introduces foundational concepts in macroeconomics. As an introductory course it equips students to use economic reasoning for critically thinking through the policy making process besides everyday decisions. We will cover modules on consumer theory and game theory to understand behavior, market equilibrium and dynamics, including introduction to market failures, externalities and public goods. The primary goal of the course is to enable students to apply principles of economics to complex policy questions, analyze market scenarios and the distributional and efficiency aspects of government intervention. We will include case-studies and policy labs to supplement class lectures.

There are no prerequisites for the course.

Learning Outcomes

Students will be able to:

- Apply microeconomic theory to analyze public policy issues (e.g., price regulation, rationing)
- Use the lens of game theory to understand social interactions (market failures, free-riding, externalities)
- Use foundational concepts in macroeconomics (inflation, unemployment, interest rates and GDP)

Assessment

Pop-quizzes	ongoing	10%
Assignments	3	12%
Case study	1	8%
Policy lab 1	1	10%
Policy lab 2	1	10%
Cumulative final exam	TBA	50 %

Grading scale

93	≤	A	≤	100
86	≤	A -	<	93
79	≤	B +	<	86
72	≤	B	<	79
65	≤	B -	<	72
58	≤	C +	<	65
0	≤	F	<	58

Primary learning materials

Microeconomics and Behavior, 9th edition. 2014. Robert Frank (*some chapters*)

Economics, 3rd edition. 2014. Gregory Mankiw and Mark Taylor (*some chapters*)

Games of Strategy, 3rd edition. 2011. Avinash Dixit, Susan Skeath, and David Reiley Jr. (*some chapters*)

Economics of the Public Sector, 4th edition. 2015. Joseph Stiglitz and Jay Rosengard (*some chapters*)

Other materials

[CoreEcon and Economy, Society and Public Policy](#) (*free online materials*)

[The Economist](#) (access via [VPN](#) when off campus)

Course outline (syllabus will be regularly updated)

1. Introduction and Understanding Behavior (*CB, MD, AM + TAs, CB*)

Required reading:

- Frank, chapter 1 (pp. 3 - 20)
- Rodrik, D. (2015). Economics rules: the rights and wrongs of the dismal science (Introduction and Chapter 1)

Further reading:

- Wolfers, Justin. "[Economics Isn't Dismal. It's Useful](#)," *New York Times*, July 2019.

2. Theory of Rational Choice (CB)

Required reading:

- Frank, chapter 3 (pp. 55 - 57, 63 - 77)

Further reading:

- Principles of Microeconomics, chapter 2 (pp. 25 - 36)
- Waldfogel, Joel. “[The Deadweight Loss of Christmas](#),” *American Economic Review*, 83, no. 5 (1993): 1328-36.

3. Application of RCT to Policy issues (CB)

Required reading:

- Bertrand, Marianne and Sendhil Mullainathan. (2004). “[Are Emily and Greg More Employable Than Lakisha and Jamal? A Field Experiment on Labor Market Discrimination](#),” *American Economic Review*, 94(4). Read p. 991-998.

Further reading:

- Banerjee, Abhijit, Esther Duflo and Michael Kremer. (2016). “[The Influence of Randomized Controlled Trials on Development Economics Research and on Development Policy](#),” Paper prepared for “The State of Economics, The State of the World” Conference, September 11, 2016.

4. Market equilibrium (AM)

Required reading:

- Frank, chapter 2 (pp. 25 - 44)

Further reading:

- Mankiw, chapter 3 (pages 62 – 69)
- Principles of Microeconomics, chapter 2 (pp. 43 - 68)
- The Economist, June 2016, [Minimum Wages Debate](#)
- Core Econ, Unit 8

5. Market dynamics and Welfare (AM)

Required reading:

- Mankiw, chapter 4 (pp. 72 – 89 and 95 – 99)
- Core Econ Unit 8, 9 (pp. 34 - 41 and 25 - 29)

Further reading:

- Core Econ, Unit 9 (pp. 29 - 48 *for financial market dynamics*)
- Christiane Baumeister and Lutz Kilian, “[Forty years of oil price fluctuations: Why the price of oil may still surprise](#)” *JEP*, 30: 139 – 160 (2016) (*focus on pages 139 – 148*)

6. **Case-Study** (*CB/MD, AM*)

Required reading:

- Assigned materials

7. **Market interventions and policy tools** (*AM*)

Required reading:

- Mankiw, chapter 7 (pages 179 – 183) (*review*)
- Mankiw, chapter 8 (pages 187 – 199) (*review*)
- Mankiw, chapter 9 (pages 203 – 210)

Further reading:

- Chouinard, H. H., Davis, D. E., LaFrance, J. T., & Perloff, J. M. (2007). [Fat Taxes: Big Money for Small Change](#). *Forum for Health Economics & Policy*, 10(2), 1-49.
- Diamond R., McQuade T. & Qian F. (2017). [The Effects of Rent Control Expansion on Tenants, Landlords, and Inequality: Evidence from San Francisco](#). *NBER Working paper*.
- Wallace Oates and Robert Schwab, “[The Window Tax: A Case Study in Excess Burden](#)” *Journal of Economic Perspectives*, 29: 163 – 80 (2015).

Assignment 1 due

8. TA session

9. Reading assignment

10. **Experimental and Behavioral insights for Policy Making** (*AM*)

Required reading:

- Thaler, *Cashews to Nudges*
- Frank, chapter 7 (pp. 211 - 214, 228 - 232)

Further reading:

- Brigitte C. Madrian, *Applying Insights from Behavioral Economics to Policy Design*

11. **Games and Behavior: foundations** (*AM*)

Required reading:

- Frank, chapter 13 (pp. 413 - 426)
- Dixit, Skeath and Reiley (TBD)

Further reading:

- Core Econ, Unit 4 (pp. 1 - 19, *applications to social interactions*)
- [Prison Breakthrough](#), *The Economist*, August 2016

12. **Game theory: applications for public policy** (AM)

Required reading:

- Dixit, Skeath and Reiley (TBD)

Further reading:

- Core Econ, Unit 4 (pp. 11 - 22, 40 - 50)
- Samuel Bowles, Duncan Foley and Simon Halliday (2018), *Microeconomics: Competition, Conflict and Coordination*, Chapter 1
- Schelling, T.C., 2010. [Game theory: a practitioner's approach](#). *Economics & Philosophy*, 26(1), pp.27-46.
- Hermans, L., Cunningham, S. and Slinger, J., 2014. The usefulness of game theory as a method for policy evaluation. *Evaluation*, 20(1), pp.10-25.

13. **Experimental Game** (AM)

14. **Market failures & Welfare** (AM)

Required reading:

- Core Econ, Unit 10 (pp. 6 - 40)

Further reading:

- Stiglitz (3rd. ed.), chapter 9 (pp. 214 – 234)
- Richard Tol, [“The economic effects of climate change,”](#) *Journal of Economic Perspectives* 23: 29 – 51 (2009).
- Catherine Wolfram, Ori Shelef, and Paul Gertler, [“How will energy demand develop in the developing world?”](#) *JEP*, 26: 119 – 138 (2012).

15. **Information, Externalities & Public Goods** (AM)

Required reading:

- Chapter 10 and 11

Further reading:

- Stiglitz (3rd. ed.), chapter 9 (pp. 214 – 234)
- Richard Tol, [“The economic effects of climate change,”](#) *Journal of Economic Perspectives* 23: 29 – 51 (2009).
- Catherine Wolfram, Ori Shelef, and Paul Gertler, [“How will energy demand develop in the developing world?”](#) *JEP*, 26: 119 – 138 (2012).

Assignment 2 due

16. TA session

17. Policy Lab (*CB/MD, AM*)

Required reading:

- Assigned materials

18. **Institutions & LR Growth** (*AM*)

Required reading:

- CORE Econ, Unit 1
- Rodrik, D., Subramanian, A. and Trebbi, F., 2004. Institutions rule: the primacy of institutions over geography and integration in economic development. *Journal of economic growth*, 9(2), pp.131-141, 153 - 158

Further reading:

- Acemoglu, D., Johnson, S. and Robinson, J.A., 2002. Reversal of Fortune: Geography and institutions in the making of the modern world income distribution. *The Quarterly Journal of Economics*, 117(4), pp.1231-1294.
- Gorodnichenko, Y. and Roland, G., 2017. Culture, institutions, and the wealth of nations. *Review of Economics and Statistics*, 99(3), pp.402-416.

19. **Measuring the Macroeconomy** (*AM*)

Required reading:

- Mankiw, Ch. 20 (pp. 437 - 455)
- Mankiw, Ch. 21 (pp. 456 - 472)
- Mankiw, Ch. 23 (pp. 497 - 503)

20. **Economic Fluctuations (SS and Demand)** (*MD*)

Required reading:

- Mankiw, Ch. 23 (pp. 504 - 514)
- Mankiw, Ch. 33 (pp. 679 - 701)

21. **Counter Cyclical Economic Policy** (*MD*)

Required reading:

Mankiw and Taylor, 3rd edition (2014)

- Business cycles: chapter 30 (pp 637 - 648)
- Keynesian multiplier: chapter 31 (pp 659 - 661)
- Counter-cyclical stabilization policy: chapter 33 (pp 702 - 718)

22. **Macro (special topic)** (*MD*)

Required reading:

- Assigned materials

23. **Policy Assignment** (*CB, MD, AM*)

- Team presentations

Assignment 3 due

24. TA session

Final Exam