

Economic Analysis for Public Policy

Fall 2020

School of Public Policy, CEU

No. of credits: 4

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

Mondays, QS 51, TBA [in-person: 15:30 – 17:10 & online: 17.20 - 19.00]

Wednesdays [online: 17:20 – 19:00]

Thursdays, QS 51, TBA [in-person: 11.00 - 12.40]

Instructors: Lajos Bokros, Michael Dorsch & Anand Murugesan

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Office hours: Bokros by appointment, QS 51, # C 407

Dorsch on Thursdays 14.14 - 15.15 (or by appointment), QS 51, #B 403

Murugesan on Thursdays 13.30 - 14.30 (or by appointment), QS 51, #C 403

Teaching assistants: [Marton Fleck](#)

Office hours: TBA (or by appointment)

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 as this is a mandatory course.

Learning Outcomes

Students will be able to:

- Apply microeconomic theory to analyze public policy issues (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

Assignments	3	30%
Forum participation	14	10 %
Case study	1	5%
In practice	1	10%
Cumulative final exam	1	45 %

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 (will be uploaded on Moodle)

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

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

Games of Strategy, 4th edition. 2011. Avinash Dixit, Susan Skeath, and David Reiley Jr. (*selected chapters*)

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

Public Finance – International Edition 5, Harvey Rosen and Ted Gayer, 2008. (*selected chapters*)

Other materials

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

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

Course outline (syllabus will be regularly updated)

1. Introduction; Capitalism, markets and democracy (*LB, MD, AM; LB*)

Required reading:

- CORE ECON unit 1, [The Capitalist Revolution](#)

Further reading:

- Mankiw and Taylor, Ch. 2 (Thinking like an Economist)
- Robert Whaples, “[Do Economists Agree on Anything? Yes!](#),” *Economists’ Voice*, November 2006.

2. Choice and demand (AM)

Required reading:

- Frank, chapter 4 (pages 95 - 127)
- Mankiw and Taylor, Ch. 5 (Background to demand)

Further reading:

- CORE Econ, Unit 3
- Mankiw and Taylor, Ch. 4 (Elasticity and its Applications)
- Jensen, Robert and Nolan Miller (2011). “Do Consumer Price Subsidies Really Improve Nutrition?” *Review of Economics and Statistics*, 93(4), p. 1205-1223.

3. Market equilibrium (AM)

Required reading:

- Mankiw and Taylor, chapter 3 (pages 41 – 71)

Further reading:

- Frank, chapter 2 (pages 25 - 44)
- Mankiw and Taylor, Ch. 3 (How Markets Work)
- The Economist, June 2016, [Minimum Wages Debate](#)
- Core Econ, Unit 8

4. Market dynamics and welfare (AM)

Required reading:

- Mankiw and Taylor, chapter 4 (pages 72 – 89 and 95 – 99)
- Mankiw and Taylor, chapter 7 (pages 169 – 183)

Further reading:

- Core Econ Unit 8, 9 (pages 34 - 41 and 25 - 29)
- Core Econ, Unit 9 (pages 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](#)” *Journal of Economic Perspectives*, 30: 139 – 160 (2016) (*focus on pages 139 – 148*)

Assignment 1 released

5. Market interventions and policy tools (AM)

Required reading:

- Mankiw, chapter 8 (pages 187 - 199)
- 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. (2019). [The Effects of Rent Control Expansion on Tenants, Landlords, and Inequality: Evidence from San Francisco](#). *American Economic Review*
- Wallace Oates and Robert Schwab, [“The Window Tax: A Case Study in Excess Burden”](#) *Journal of Economic Perspectives*, 29: 163 – 80 (2015).

6. TA session 1

Assignment 1 due

7. Case study (MD & AM)

Required reading:

- Assigned materials

8. Games and behavior: Foundations (AM)

Required reading:

- Frank, chapter 13 (pages 413 - 426)
- Dixit, Skeath and Reiley, 4th Ed. (pages 20 - 33, 91 - 105)

Further reading:

- [Prison Breakthrough](#), *The Economist*, August 2016
- Schelling, T.C., 2010. [Game theory: a practitioner’s approach](#). *Economics & Philosophy*, 26(1), pp.27-46.

9. Game theory: Applications for public policy (AM)

Required reading:

- Core Econ, Unit 4 (pages 1- 22, 40 - 50)

Further reading:

- Samuel Bowles, Duncan Foley and Simon Halliday (2018), *Microeconomics: Competition, Conflict and Coordination*, Chapter 1

- 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.

10. **Economic experiment** (*AM + MD*)

Required reading:

- Thaler, Richard H. "From cashews to nudges: The evolution of behavioral economics." *American Economic Review* 108.6 (2018): 1265-87.

Further reading:

- Policy for Homo-Sapiens (Govt. of India 2019 Economic Survey)
- Brigitte C. Madrian, *Applying Insights from Behavioral Economics to Policy Design*

Assignment 2 released

11. **Market failures & information and public goods** (*AM*)

Required reading:

- Core Econ, Unit 10 (pages 6 - 40)
- Mankiw and Taylor, chapter 10 (pages 221 - 234)

Further reading:

- Stiglitz and Rosenzweig, chapter 4 (pages 81 – 100)
- Core Econ, Chapter 11
- Richard Tol, "[The economic effects of climate change](#)," *Journal of Economic Perspectives* 23: 29 – 51 (2009).

12. **TA session 2**

Assignment 2 due

13. **Market failures and externalities** (*MD*)

Required reading:

- Rosen and Gayer, chapter 5 (pages 71 – 102)

Further reading:

- CORE ECON unit 12, [Markets, efficiency and public policy](#) (sections 12.2 and 12.3)
- Hunt Allcott, Benjamin B. Lockwood and Dmitry Taubinsky, [Should we tax sugar-sweetened beverages? An overview of theory and evidence.](#) *Journal of Economic Perspectives*, 33 (3): 202 – 227 (2019).

- Tatiana A. Homonoff, “Can small incentives have large effects? The impact of taxes versus bonuses on disposable bag use.” *American Economic Journal: Economic Policy*, 10 (4): 177 – 210 (2018).

14. Economic models of politics (MD)

Required reading:

- Stiglitz and Rosenzweig, chapter 9 (pages 230 – 259)
- CORE ECON unit 22, [Economics, politics, and public policy](#) (sections 22.1, 22.5 – 22.8, 22.10, and 22.14)

Further reading:

- Randall Holcombe, “The politics of left and right,” *Advanced Introduction to Public Choice*, 13 – 23 (2016).
- Hunt Allcott and Matthew Gentzkow. “Social media and fake news in the 2016 election,” *Journal of Economic Perspectives*, 31 (2): 211 – 236 (2017).
- Cascio, Elizabeth U. and Na’ama Shenhav. “A century of the American woman voter: Sex gaps in political participation, preferences, and partisanship since women’s enfranchisement.” *Journal of Economic Perspectives*, 34(2): 24 – 48 (2020).

15. Inequality and redistribution (MD)

Required reading:

- Rosen and Gayer, chapter 12 (pages 258 – 275)
- Autor, David. “Skills, education, and the rise of earnings inequality among the ‘other 99 percent’,” *Science* 344: 843 – 851 (2014).

Further reading:

- CORE ECON unit 19, [Economic inequality](#) (sections 19.1 – 19.4 and 19.10 – 19.11)
- Ravallion, Martin. “Income inequality in the developing world,” *Science* 344: 851 – 855 (2014).
- Facundo Alvaredo, Anthony Atkinson, Thomas Piketty, and Emmanuel Saez. “The top 1 percent in international and historical perspective,” *Journal of Economic Perspectives*, 27 (3): 3 – 20 (2013).
- Gregory Mankiw. “Defending the one percent,” *Journal of Economic Perspectives*, 27 (3): 21 – 34 (2013).

Assignment 3 released

16. **Measuring the macroeconomy** (*MD*)

Required reading:

- Mankiw and Taylor, Ch. 20 (pages 437 - 452)
- Mankiw and Taylor, Ch. 21 (pages 456 - 468)
- Mankiw and Taylor, Ch. 22 (pages 476 - 482)
- Mankiw and Taylor, Ch. 23 (pages 497 - 503)

Further reading:

- CORE ECON unit 13, [Economic fluctuations and unemployment](#) (sections 13.1 - 13.4 and 13.8)

17. **TA session 3**

Assignment 3 due

18. **Financial system and credit markets** (*LB*)

Required reading:

- Mankiw and Taylor, Ch. 24
- Mankiw and Taylor, Ch. 26

Further reading:

- CORE ECON unit 10, [Banks, money, and the credit market](#)

19. **Economic fluctuations: Aggregate supply and demand** (*MD*)

Required reading:

- Mankiw and Taylor, Ch. 30 (pages 637 - 648)
- Mankiw and Taylor, Ch. 32 (pages 679 - 696)

20. **Counter cyclical economic policy** (*MD*)

Required reading:

- Mankiw and Taylor, Ch. 31 (pp 659 - 661)
- Mankiw and Taylor, Ch. 33 (pp 702 - 718)

Further reading:

- CORE ECON unit 14, [Unemployment and fiscal policy](#) (sections 14.1 - 14.2 and 14.5 - 14.9)

21. **Monetary policy and international finance** (*LB*)

Required reading:

- Mankiw and Taylor, Ch. 27
- Mankiw and Taylor, Ch. 28
- Mankiw and Taylor, Ch. 29

Further reading:

- Mankiw and Taylor, Ch. 36
- Mankiw and Taylor, Ch. 37

22. **Automation and labor markets** (*MD*)

Required reading:

- Mankiw and Taylor, Ch. 17 (pages 355 – 366)
- Autor, David. 2015. "[Why are there still so many jobs? The history and future of workplace automation](#)," *Journal of Economics Perspectives*, 29 (3): 3-30.

Further reading:

- Mokyr, J., Vickers, C., Ziebarth, N. L. 2015. "[The history of technological anxiety and the future of economic growth: Is this time different?](#)," *Journal of Economic Perspectives*, 29 (3): 31-50.
- Caprettini, Bruno, and Hans-Joachim Voth. "[Rage against the machines: Labor-saving technology and unrest in England, 1830-32](#)," *American Economic Review: Insights*, 2 (3): 305 – 20 (2020).

23. **Economics in practice** (*MD, AM*)

- Team presentations

24. **Final exam**