

# Microeconomics, Behaviour and Public Policy

Fall 2023

Department of Public Policy, CEU

No. of credits: 2

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## Course description

The course trains students to use concepts from microeconomic theory to analyze public policy issues. 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 an 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 and 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 (free-riding)
- Exposure to some contemporary topics in public economics (market failures, externalities)

## Assessment

Assignments	2	30%
Discussion forum participation	6	10 %
Case study	1	10%
Cumulative final exam	1	50 %

## Workload

Assignments	20 hours
Reading / Discussion forum participation	30 hours
Case study preparation	4 hours
Seminar (in-class)	21 hours
Cumulative final preparation	25 hours

## Discussion forum participation

Each student must raise a conceptual question based on the reading materials or a pertinent comment three hours before the session. Alternatively, students can respond to a previous question or note down comments/observations related to the reading material. Engagements are required in seven sessions (at least) for credit.

## Grading scale

96	≤	A	≤	100
88	≤	A -	<	95
80	≤	B +	<	87
71	≤	B	<	79
63	≤	B -	<	70
58	≤	C +	<	62
0	≤	F	<	57

## 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*)

### Other materials

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

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

## Course topics (syllabus will be regularly updated)

### 1. Introduction to rational choice

Required reading:

- Frank, chapter 1 (pp. 3 - 15)

- Frank, chapter 3 (pp. 55 - 74)

Supplementary reading:

- Frank, chapter 4
- Mankiw and Taylor, Ch. 2
- CoreEcon unit 1 (ebook) [The Capitalist Revolution](#)
- Robert Whaples, “Do Economists Agree on Anything? Yes!,” *Economists’ Voice*, November 2006.
- Jensen, Robert and Nolan Miller (2011). “Do Consumer Price Subsidies Really Improve Nutrition?” *Review of Economics and Statistics*, 93(4), p. 1205-1223.

## 2. Markets: Dynamics and Policy

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

## 3. Market dynamics, policy, and welfare

Required reading:

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

Further reading:

- CoreEcon Unit 8, 9 (pages 34 - 41 and 25 - 29)
- CoreEcon, 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*

## 4. Market interventions and policy tools

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).

## 5. Case study

Further information will be available on Moodle.

Required reading:

- Veena Keshave Pailwar, [“India Sheds Tears Over Onions,”](#) *Harvard Business School Case Study* HEC049.

*Assignment 1 due*

## 6. Review session

## 7. Market failures and public goods

Required reading:

- Stiglitz and Rosenzweig, chapter 5 (pages 101 – 124)
- CoreEcon unit 12, [Markets, efficiency and public policy](#) (sections 12.5 and 12.8)

Further reading:

- Mankiw and Taylor, chapter 10 (pages 221 - 234)
- Hughes-Cromwick, Ellen, and Julia Coronado, [“The value of US government data to US business decisions,”](#) *Journal of Economic Perspectives*, 33: 131 – 46 (2019)
- Richard Tol, [“The economic effects of climate change,”](#) *Journal of Economic Perspectives* 23: 29 – 51 (2009).

## 8. Market failures and externalities

Required reading:

- Rosen and Gayer, chapter 5 (pages 81 – 102)
- CoreEcon unit 12, [Markets, efficiency and public policy](#) (sections 12.1 – 12.4)

Further reading:

- CoreEcon, unit 20, [Economics of the environment](#)

- 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).

## 9. Games and behavior: Foundations

Required reading:

- Frank, chapter 13 (pages 413 - 426)
- Dixit, Skeath and Reiley, 4th Ed. (pages 20 - 33, 91 - 107)

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.

*Assignment 2 released*

## 10. Game theory: Applications for public policy

Required reading:

- CoreEcon, Unit 4
- Dixit, Skeath, Riley, Ch. 4 (pp. 180 - 193)
- Dixit, Skeath and Reiley, 4th Ed. (pages 418 - 425)

Further reading:

- Dixit, Skeath and Reiley, 4th Ed., Ch. 14 (narrative of Cuban missile crisis)
- 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.

## 11. Experimental and Behavioral insights for Policy Making

Required reading:

- Thaler, 2018. Cashews to Nudges
- Frank, chapter 7 (pp. 211 - 214, 228 - 232)

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 due*

**12. Final Exam**