

School of Urban Studies & Planning
USP615: Economic Analysis of Public Policy
Office Hrs: Mon. & Thurs. 3:00-4:00 and by appt.
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Reading List

This course is intended to provide you with a background in economic analysis as it is applied to public issues. The methods of analysis must be developed before they can be applied. The basic economics will come from Microeconomic Theory and Applications, 8th ed. by Edgar K. Browning and Mark A. Zupan (indicated below by BZ). (Note that older editions of the text are perfectly adequate, only the chapter numbers are changed). The additional problems and discussion in the optional Study Guide may be useful if you find it hard to follow the text and classroom discussion. The optional text, The Economic Way of Thinking 10th ed. (or any other editions) by Paul Heyne (H), offers greatly expanded discussion of some of the key concepts in microeconomics. Required readings are marked with an *, but you are encouraged to read all of the material. Required articles that are not in the texts are available in a packet from Clean Copy (corner of Broadway and Mill). There are also copies of old exams in the packet.

There will be a number of problem sets, a midterm, and a final. You are encouraged to form study groups to discuss the problem sets. However, each student should then write his or her own solutions. Problem sets are graded, but they only count for students on the margin between two grades. The final exam determines about 60% of the grade and the midterm about 40%.

I will maintain a listserve for the course. Either provide me your e-mail address or send me a message at the above e-mail sometime during the first week of class. You may then send messages to the class through the listserve. If there are questions, I will try to respond to them, but it also allows you to have discussions with the rest of the class regarding issues, discussion groups, and so on.

The material in the course is cumulative. If you do not understand what is covered in the early part of the class, you will probably have even greater difficulties as the class progresses. So, if you do find yourself having problems, please see me. Do not wait until after the exams to ask for help. Once you take an exam, the grade you receive will not be changed. As an issue of fairness to all students, I do not allow those having problems to do other work for extra credit. Your grade is determined solely by your performance on the exams and, to a small extent, on the problem sets.

We cover the material according to the following list. Some topics will take more than one week and some less, but the following readings each cover about one week. The midterm exam is tentatively set for Monday, November 3rd. It will be a one-hour exam at the beginning of class.

1. Introduction

- * BZ Chapters 1-2 ("An Introduction to Microeconomics" and "Supply and Demand")
- * North, Douglas C., "Institutions," *The Journal of Economic Perspectives* 5:1 (Winter 1991): 97-112.
- H Chapter 1 ("The Economic Way of Thinking")

2. Analysis of Demand

- * BZ Chapters 3 ("The Theory of Consumer Choice" - Section 3.6 is optional), 4 ("Individual and Market Demand" - Sections 4.3 and 4.6 are optional), Sections 5.1-5.3 ("Excise Subsidies," "Public Schools and the Voucher Proposal," and "Paying for Garbage"), and Section 6.4 ("Price and Nonprice Rationing and Efficiency")
- H Chapter 3 ("Substitutes Everywhere: The Concept of Demand")

3. Analysis of Production

- * BZ Chapters 7 ("Production" – Only sections 7.1 and 7.4 are required) and 8 ("The Costs of Production")
- * Gowrisankaran, Gautam, "Productivity in Heart Attack Treatments," FRBSF Economic Letter Number 2002-20, 1-3.

4. Analysis of Supply

- * BZ Chapter 9 ("Profit Maximization in Perfectly Competitive Markets") and pages 347-350 (Peak-Load Pricing)
- * Rufolo, Anthony M., "Average and Marginal Cost Pricing" in Frank N. Magill, ed., *Survey of Social Science: Economics* (Salem Press: Pasadena, CA 1991), pp. 114-120.
- H Chapters 4 and 6, ("Opportunity Cost and the Supply of Goods", and "Supply and Demand: Issues and Applications")

5. Applications of The Competitive Model

- * BZ Chapter 10 ("Using the Competitive Model")

H Chapters 5 and 2 ("Supply and Demand: A Process of Coordination" and "Efficiency, Exchange, and Comparative Advantage")

6. Economics of Information

* BZ Chapter 14 ("Game Theory and The Economics of Information")

H Chapter 7 ("Information, Middlemen, and Speculators")

7. Input Markets, The Income Distribution, and Poverty Policies

* BZ Chapters 16-18 ("Employment and Pricing of Inputs," "Wages, Rent, Interest, and Profit," and "Using Input Market Analysis" - Sections 16.6, 16.7, and 18.3 are optional)

* Wirtz, Ronald A., "Anti-Poverty Design: The Cash-Out Option," *The Region* 17:2 (June 2003), 19-21.

H Chapters 8 and 12 ("Profit and Loss," and "The Distribution of Income")

8. Monopoly and Other Market Power

* BZ Chapter 11 ("Monopoly"), and Sections 13.4 and 15.3 ("Cartels and Collusion" and "Natural Monopoly")

* Winston, Clifford, "U.S. Industry Adjustment to Economic Deregulation," *The Journal of Economic Perspectives* 12:3 (Summer 1998): 89-110.

H Chapters 9-11 ("Competition and Monopoly," "Price Searching," and "Competition and Government Policy")

9. Public Goods and Externalities

* BZ Chapter 20 ("Public Goods and Externalities")

H Chapters 13 and 14 ("Externalities and Conflicting Rights" and "Markets and Government")