PUBLIC AFFAIRS 516  
Microeconomic Policy Analysis

Objectives
This course will deepen your understanding of microeconomic theory and develop your skills in applying it to public policy and management issues. Students will:

- learn to identify the relevant economic questions about policy and management issues
- learn to evaluate the economic aspects of analyses that they will encounter in the policy world for their strengths, weaknesses, and hidden biases or assumptions, and
- build their abilities to design policies with an eye towards their economic consequences.

As you study the ideas and applications presented in the course, your economic intuition will become sharper and you will come to understand (and perhaps appreciate) how economists think about policy and management problems, and how you can use economic ways of thinking to be more effective managers and analysts. I encourage you to offer examples from your experience.

Prerequisites
The course will draw freely upon ideas and vocabulary developed in an introductory economics course. Material presented during the term will apply and extend those ideas. The course assumes students are comfortable with analytic and quantitative reasoning. We will rely extensively on graphs. Students will need to use both graphs and algebra to master the concepts and solve the problems. If your skills in these areas are rusty, reviewing them early in the term will pay large dividends. Those who have never studied economics formally or with weak analytic and quantitative skills should expect to devote extra time to the course.

Class Meetings
The class meets Tuesday and Thursday, 9:00 – 10:20 in Parrington 108. Katie Lewis, the TA, will arrange a review session during the first week of class.

Communication with Professor and TA; Office Hours

Plotnick:  
Office: Parrington 225
Hours: Tuesday, 3 - 5 or by appointment
Phone: 685-2055
plotnick@u.washington.edu

To set an appointment, send e-mail suggesting a couple of days and times when you want to meet, or call. Feel free to drop by my office any time. If I’m in, either I will take time to talk, or we can set up a meeting time.

TA: Katie Lewis  
Office: Parrington 124D
Office Hours: Monday, 4:00-6:00
Review Session: Tuesday, 2:00-3:00; Saturday, 10:00-11:00**
klew@u.washington.edu

**Saturday review primarily for Evening Degree students in Wed. night section.

Course listserv: pbaf516a_au05@u.washington.edu
If you would like to request academic accommodations because of a disability, please contact Disabled Student Services, 448 Schmitz, (206) 543-8924 (V/TTY). If you have a letter from Disabled Student Services indicating you have a disability that requires academic accommodation, please present the letter to me so we can discuss the accommodations you might need for the class.

**Course Assignments**

**Text:** Edgar Browning and Mark Zupan, *Microeconomics theory and applications*, 8th edition, John Wiley and Sons, 2005. Earlier editions are fine but you are responsible for reading the sections that correspond to the ones assigned from this edition.

**Other Readings:** Several of the assigned readings are on the Web. URL’s for those readings are in the reading list, and you can go directly to them using the links in the on-line reading list. If there is no URL the reading will be on the Library system’s electronic reserve web site. To locate the readings for this course, go to [http://www.lib.washington.edu/services/course](http://www.lib.washington.edu/services/course) then follow instructions to get to the 516 readings. Find the author and title of the work you want to read and click on the link. *Note that only UW computer accounts can access the e-reserves.*

A word of advice – if you plan to do a lot of web site reading at home, note that some readings can take a long time to download if you do not have a high-speed internet connection. If you leave your reading to the night before class, you may be unable to complete it because of this constraint. I suggest that you save or print the documents a few days before you need them.

I encourage students to bring current news articles that use (or misuse) economic analysis, or that illustrate relevant concepts in the course.

Economics builds upon an interrelated set of tools and concepts. It is important that you understand them as they are developed. Please complete assigned readings before class. You are responsible for all material in the readings, whether or not it is discussed in class. And, of course, you are responsible for all lecture material, whether or not it is in the readings.

**Problem Sets:** It is almost impossible to learn microeconomic policy analysis well without working many problems. I will distribute problem sets throughout the term. Answers will be due one week after distribution. The TA will review your solutions to help you diagnose the gaps in your understanding. Answers will be distributed. Review sessions may be partly devoted to going over the problems.

Problem sets will be assessed as full credit, partial credit or no credit. You may work on the problems in small groups, as long as the effort is truly collaborative. You will not benefit much by simply copying someone’s answers. The problems are excellent preparation for the exams.

Problem sets, solutions, and other class handouts will be available on the course web site after they are distributed in class.
Grading

There will be one short in-class quiz and a longer mid-term exam to help diagnose your understanding of the theory covered and its application and one final exam at the end of the quarter. All tests are open book—you may use your book and notes during the exams. I recommend that you prepare a two-page study guide for each test. Condensing your notes into this study guide is a good way to prepare and will be easy to consult during the exam.

Your final course grade will be determined by:

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<tr>
<th>Component</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Problem sets</td>
<td>10%</td>
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<tr>
<td>Quiz</td>
<td>15%</td>
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<td>Mid-term</td>
<td>30%</td>
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<td>Final exam</td>
<td>45%</td>
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Policy on Late Assignments, etc

If you must miss class when a problem set is due, please leave your answers in the TA’s mailbox. Answers more than one day late will not be reviewed or receive credit. If illness or another emergency prevents you from taking the mid-term or final, you must contact me before the test either in person or by e-mail or phone or you will not be allowed to take a makeup. University policy on course incompletes and withdrawals will be followed.

TOPICS AND READING ASSIGNMENTS

<table>
<thead>
<tr>
<th>Session</th>
<th>Date</th>
<th>Topic and Assignment</th>
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| 1       | 9/29  | Course introduction and review of supply and demand  
Text, Chapters 1 and 2. Also applications 1.6, 1.7, 2.10 and 2.11 at front of the text |
| 2       | 10/4  | Finish review, start the theory of individual choice  
Text, Chapter 3 [section 3.6 optional] |
| 3, 4    | 10/6, 10/11 | Extending and applying the theory of individual choice  
Text, Chapter 4 [section 4.6 optional]  
Text, Chapter 5 [section 5.5 optional]  
“To Reduce the Cost of Teenage Temptation, Why Not Just Raise the Price of Sin?” New York Times, July 25, 2005 |
| 5       | 10/13 | QUIZ, followed by  
The production and cost side of microeconomic policy analysis  
Apgar & Brown, Microeconomics and Public Policy, pp. 26-45, 59-63  
Text, Chapter 8 and applications 8.10 and 8.11 at front of the text |
| 6       | 10/18 | Modeling the behavior of profit-seeking firms in competitive markets  
Text, Chapter 9 |
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<thead>
<tr>
<th>Date</th>
<th>Topic</th>
<th>Notes</th>
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<tr>
<td>7, 8</td>
<td>10/20 Applications of the competitive model to public policy</td>
<td>Text, Chapter 10 and applications 10.10 and 10.11 at front of the text</td>
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<td>9</td>
<td>10/27 Monopoly</td>
<td>Text, Chapter 11 and application 11.7 at front of the text</td>
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<td>10</td>
<td>11/1 Labor markets</td>
<td>Text, Chapter 17, sections 17.1, 17.2, 17.4; chapter 18, sections 18.1, 18.2</td>
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<td>11</td>
<td>11/3 No lecture</td>
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<td>12, 13</td>
<td>11/8 Applications of the monopoly model, policies for industry regulation</td>
<td>Text, Chapters 12 and 15 [section 15.5 optional] and applications 12.9 and 15.4 at front of the text</td>
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<td></td>
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<td>“GlaxoSmithKline aims to stop AIDS profiteers,” BBC News 21 Feb 05</td>
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<td>14</td>
<td>11/15 Market failure and government intervention: Overview</td>
<td>Text, skim chapter 19 for main ideas</td>
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<td>15</td>
<td>11/17 MID-TERM EXAM</td>
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16, 17  11/22  Public goods and externalities
Text, Chapter 20 and applications 20.8 and 20.9 at front of the text
S. Landsburg, “Property is theft: When protecting your own property is
stealing from others,” Slate, posted on Aug 2, 1997,
http://slate.msn.com/?id=2041
“A tale of two fisheries,” New York Times Sunday Magazine, August 27,
2000
P. Portney et al. “Policy watch: The economics of fuel economy
standards,” J. of Economic Perspectives, Fall 2003, pp. 203-217. See
http://www.ingentaconnect.com/content/aea/jep/2003/00000017/00000
04;jsessionid=2ssljm1nfsqdn.victoria and then click on the article

18  12/1  Imperfect information and the roles of social insurance and non-profit
organizations
J. Gruber, Public Finance and Public Policy, chapter 12 “Social
insurance: The new function of government” (available on course
website)
Text, applications 14.5 (p. 404), 14.6 (p. 406) and 14.7 (p. 407)
“California wants to serve a warning with fries,” New York Times
September 21, 2005

19  12/6  Pursuing equity objectives with public policy
E. Steuerle, “Common issues for voucher programs,” chapter 1 in
Vouchers and the provision of public services, edited by Steuerle,
http://www.brook.edu/press/books/chapter_1/vouchers.pdf
S. Adams and D. Neumark “A Decade of Living Wages: What Have We
Learned?” Public Policy Institute of California, July 2005,
http://www.ppic.org/content/pubs/EP_605SAEP.pdf

20  12/8  Benefit-cost analysis, Course evaluation
TBA
RAND Research Brief, “The costs and benefits of universal preschool in
the complete study.
Optional: R. Blank, “What do economists have to contribute to policy
decision-making,” Quarterly Review of Economic and Finance, 2002,
pp. 817-24.

FINAL EXAM  Details to be arranged.