

Economics and Public Policy

Professor Stuart Shapiro

EJB 538

Office Hours Monday 1-2:30 Thurs. 11:30-1.

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Course: 34:833:543

Monday 9:50-12:30

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Overview

This course applies microeconomic reasoning to public issues, policies, and programs. It considers economic incentives and organizations; models of economic behavior, including markets, the absence of markets, and interventions in markets; the price system and how it works; and policy objectives and instruments

Requirements:

There will be 8 problem sets, a midterm, and a final exam. The midterm will take up two hours of a class period on March 7, and the final will be on May 9. The problem sets will make up 20% of your grade. The midterm will make up 30% and the final 40%. The final 10% will be made up of class participation.

While students are encouraged to work in small groups on the problem sets, they must be written up individually.

Students are expected to uphold the university academic integrity policy. The policy can be found at: <http://academicintegrity.rutgers.edu/integrity.shtml>

Readings

The textbook for this course is *Microeconomics*, Seventh Edition, by Robert S. Pindyck and Daniel L. Rubinfeld (Prentice-Hall, 2007), hereafter referred to as P+R. Other standard textbooks cover similar material to that in the Pindyck and Rubinfeld text. Students are encouraged to peruse through other micro textbooks to see if the material is covered or explained in ways that is more to their liking (use the index to the book if you are looking for a particular concept). Other textbooks include:

E. and J. Browning, *Microeconomic Theory and Applications*, Fourth Edition (Harper Collins, 1992).

R. Clower, P. Graves, and R. Sexton, *Intermediate Microeconomics* (Harcourt Brace Jovanovich, 1988).

S. E. Landsburg, *Price Theory and Applications*, Second Edition (Dryden Press, 1992).

E. Mansfield, *Microeconomics: Theory and Applications*, Eighth Edition (Norton, 1994).

Nicholson, *Intermediate Microeconomics and Its Applications*, Fourth Edition (Dryden Press, 1987).

P. Trivedi, *Applied Microeconomics for Public Policy Makers* (International Management Publishers, 1982).

Some books provide a more engaging description of the economic way of thinking. Students might wish to complement the textbook and classroom presentations by looking at this material. These books include:

Steven Levitt and Stephen Dubner *Freakonomics* (Harper Collins 2005).

David Friedman, *Hidden Order: The Economics of Everyday Life* (Harper, 1996).

Steven E. Landsburg, *The Armchair Economist: Economics & Everyday Life* (Free Press, 1993).

In addition, several classes have readings outside the textbook required. Often these readings will be a particular focus of the class so completing them is required. These are available online at:

Markets

Class 1 January 24 The Basics of Supply and Demand

P+R Ch1

Class 2 January 31 Minimum Wages and Elasticities

P+R Ch 2

Card, David and Alan B. Krueger. "Minimum Wages and Employment: A Case Study of the Fast Food Industry in New Jersey and Pennsylvania," *American Economic Review* 94, September 1994, pp. 772-793.

Neumark, David and William Wascher. "Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania: Comment," *American Economic Review*, December 2000, pp. 1362-1396.

Class 3 February 7 Consumer Behavior

Homework #1 due

P+R Ch. 3, 4.1

Class 4 February 14 Demand Curves and Introduction to Supply

Homework #2 due

P+R Ch. 4 and 6

Class 5 February 21 Production and Costs

Homework #3 due

P+R Chs. 7-8

Class 6 February 28 Taxes, Tariffs, Competitive Markets Simulation and Review

Homework # 4 due

P+R Ch 9

Class 7 March 7 Review Simulation and Midterm

Market Failures

Class 8 March 21 Monopoly

P+R Chs. 10-11

Class 9 March 28 Oligopoly and Game Theory

Homework # 5 due

P+R Ch. 12 and 13.

Axelrod, Robert. The Evolution of Cooperation Basic Books, 1984. pp 27-54.

Class 10 April 4 Asymmetric Information

Homework #6 due

P+R Ch. 17

Akerlof, George, "The Market for Lemons: Qualitative Uncertainty and the Market Mechanism," *Quarterly Journal of Economics* 84 (1970), pp. 488-500.

Class 11 April 11 Externalities and Public Goods

Homework #7 due

P+R Ch. 18 (review 13)

Coase, Ronald "The Problem of Social Cost" Journal of Law and Economics 3, October 1960, 1-44.

Class 12 April 18 Benefit Cost and Cost Effectiveness Analysis

Homework # 8 due

OMB Circular A-4 "Regulatory Analysis"

"Ranking Regulatory Investments in Public Health" from the Analytical Perspectives Volume of the President's FY 2003 Budget.

Class 13 April 25 Behavioral Economics

Tversky, Amos and Kahneman, Daniel, "Judgement under Uncertainty: Heuristics and Biases" from Daniel Kahneman, Paul Slovic, and Amos Tversky, eds. Judgement Under Uncertainty: Heuristics and Biases, Cambridge University Press, New York.

Sunstein, Cass. and Richard Thaler, "Libertarian Paternalism is not an Oxymoron" 70 University of Chicago Law Review 1159. Fall 2003.

Class 14 May 2 Review