

**UNIVERSITY OF WISCONSIN-MADISON**  
***La Follette School of Public Affairs***

**PUBLIC AFFAIRS 880--Fall 2015**  
**MICROECONOMIC POLICY ANALYSIS**

**Professor Jason Fletcher: [jfletcher@lafollette.wisc.edu](mailto:jfletcher@lafollette.wisc.edu)**

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**Course Description:**

This course is a first course in microeconomic analysis. While the material will be accessible to students with no economics background, we will cover some topics at the intermediate level. This course will develop a theoretical framework for analysis and apply this framework to real-world issues.

We will examine the choices of both individuals and of firms in a variety of market environments.

By the end of the course, students should (1) be familiar with the basic tools of microeconomic analysis, (2) have an understanding of their usefulness and limitations, and (3) have experience applying these tools to issues of public policy.

This course emphasizes the nature of decision-making by consumers, firms, and governments, and the effect of these decisions on the allocation of resources--land, labor and capital. A central issue is to establish the meaning of "efficiency" in resource allocation to establish a best-case scenario that can then be compared to a variety of policy options. We will investigate the conditions under which a market economy is able to secure an efficient allocation of society's resources, and explore how the public sector has an important role to play in a market economy like that of the United States. We will study the ways in which private market failure exists, and the possible response of government to this failure.

A second basic issue is to understand how the income generated by the economy's use of resources is allocated among people--workers and capital owners; highly-skilled workers and unskilled workers; rich and poor. The questions here are ones of "equity," or inequality. The public sector also has a role in altering the nation's income distribution.

A third objective is to assess the effectiveness of collective action--public policy--taken to improve economic efficiency and enhance equity. Having developed the analytical tools of microeconomics necessary to discuss efficiency and equity issues, we will apply them to a series of important contemporary public policy issues. Many of these issues involve public policy proposals, and our objective will be to understand how these proposals might affect the efficiency of the allocation of the nation's resources and equity or fairness in the distribution of income.

The course can roughly be thought of as having three segments. In the first segment, we will deal with the basic principles of consumer decision-making and the concepts of efficiency and equity, after which there will be a midterm examination. In the second section, we will work on the economics of production, costs, and different forms of market structure. The third segment focuses on specific topics the tools of applied microeconomics can be used to analyze.

**Course Website:** The course website can be found on Learn@UW (<https://learnuw.wisc.edu/>). The website includes links to the course syllabus (this document) and the readings (course e-reserves). Weekly problem sets, answer keys, supplementary readings, and other important information will also be posted on the website over the course of the semester. The course website shows the list of “News,” where the instructor will post important course-related announcements. The TA and the instructor will also be communicating with you through e-mail class lists, and these e-mails will often direct you to the course website.

**Class Lecture Sessions:** The class will meet two times per week, on Monday and Wednesday. On Monday and Wednesday, the class will meet jointly from 11:00AM to 12:15PM; Professor Fletcher will be conducting these sessions. All of the Monday and Wednesday sessions will involve formal presentations, but with questions and comments encouraged. This material will supplement the readings but will not be a substitute for them.

Monday	Joint	11:00AM–12:15PM	<b>594 Van Hise Hall</b>
Wednesday	Joint	11:00AM–12:15PM	<b>594 Van Hise Hall</b>

**Discussion Sections:** There are three discussion sections, and each student is assigned to one of these discussion sections. The TA, Vedant Bhatnagar, will be responsible for the discussion sections.

DIS 301	4:30-5:20 PM	Wednesday	150 Russell Lab
DIS 302	5:45-6:35 PM	Thursday	150 Russell Lab
DIS 303	9:05-9:55 AM	Friday	150 Russell Lab

In the weekly discussion section, Vedant will go over the problem sets for the prior week, answer questions about the lectures during the previous week, and facilitate critical discussion of the course material. On some weeks, he will make a presentation on a topic that could not be covered in sufficient depth during the lectures. The separate discussion sections will be similar in format and content. Should conflicts arise during a particular week, students may substitute another discussion section for the one in which they are registered.

**Examinations and Grading:** There will be two midterm examinations and a final examination. The midterm examinations will be given during regularly scheduled class periods. The final examination will be given at the scheduled time during the final exam period or earlier (during the week of the university’s last class date). Each of the midterm exams will count for 25 percent of the course grade. The final exam will be comprehensive (i.e., cumulative), and will count for 40 percent of the course grade. Hence, the exams will count for a total of 90 percent of the final course grade. Your homework performance and participation in class and discussion section will account for the remainder (i.e., 10 percent) of the course grade.

**Weekly Homework / Problem Sets:** There will be a problem set posted on the class web site by the ‘close of business’ each Wednesday. Students will complete the problem sets and hand them in at the lecture on the following Monday. This will allow four days for completing the assignment. The problem set handed in on Monday will be discussed in the discussion sections that week. While students are encouraged to discuss homework assignments with each other, the work turned in must be the student’s own work. Your assignment must be turned in in class and late homework will **not** be

accepted. The homework assignments will be 'graded' using simple check (✓), check-minus (✓-), and check-plus (✓+) grades.

**Strong Recommendation:** In the past, students have found it very helpful to form study groups to work through these problems. The instructor can assist you in forming these groups.

**Class Participation:** Regular attendance at the two weekly lectures is essential to gain the full benefit from the course. Attendance at discussion sections is required. Questions and discussion in the lecture and discussion sections are an integral part of the course.

#### **Required Materials:**

1. The following book is a required textbook for the course:

**Jeffrey M. Perloff, *Microeconomics*, 7th Edition**, Pearson/Addison-Wesley, 2014

Alternative: **Jeffrey M. Perloff, *Microeconomics*, 6th Edition**, Pearson/Addison-Wesley, 2011

The 6<sup>th</sup> Edition is **on reserve** at the Social Science Library (8<sup>th</sup> floor)

2. In addition, you may consider subscribing to **EconWeb**, which is an on-line textbook. Problems, answers/applications website. The cost of signing up for the Intro Micro (economics) portion of web course is minimal. The registration website address is <http://www.econweb.com/sub/iMicro.html>. In addition, along with purchase of Perloff's textbook, you obtain access to an on-line learning program entitled "My Econ Lab." That program contains sample exams and other materials that you may find useful.

The reading assignments for each class meeting are shown on the attached class schedule (below). The readings are collected in folders at the Learn @UW class website.

**Related Readings:** Because we will be discussing many current issues and policies, students are expected to keep abreast of major developments in the economy as well as the emergence of new economic issues and policy proposals. The best way to follow these developments is by reading regularly *The New York Times*, *The Wall Street Journal*, or such business publications as *Business Week* and *The Economist*.

Excellent Online Course (Gruber MIT): <http://ocw.mit.edu/courses/economics/14-01sc-principles-of-microeconomics-fall-2011/>

**A final note on the readings:** in general, I suggest prioritizing the text book, lecture notes, journal articles (especially toward the end of the semester) for proficiency in the topics/ideas. The Khan Academy videos are meant to help you if you are having trouble or would like another perspective on the basic concepts. The more popular readings (i.e. Slate articles) are meant to further tie the concepts to real world and interesting applications, but some students feel bogged down when doing all the readings each week, so it is fine to skim the popular readings.

#### **Instructor Office Hours:**

Jason Fletcher	Monday	1:45-3:15 PM or by Appt	Office: 4430 Social Science
Vedant Bhatnagar	Friday	10:15-11:15 AM or by Appt	Office: Bascom 401B

**Concerns about the Course:** If you have a concern about the course, please bring it to the attention of the instructor or TA. If you have a concern about the grade you receive on a homework assignment or an examination, first talk to your TA, Vedant Bhatnagar. If you believe you still have a legitimate concern that has not been addressed, please provide Professor Fletcher with a written explanation of your concern. The instructor will review the materials and will be in touch with you.

1. September 2:

Introduction to the Course: The Economic Problem: Production Possibilities, Concept of Tradeoffs  
Landsburg, SE. "Do the Poor Deserve Life Support." Slate 2006  
Barro: "Pleading the Case".

Khan: <http://www.khanacademy.org/economics-finance-domain/microeconomics/choices-opp-cost-tutorial/production-possibilities/v/opportunity-cost>

**Big Idea:** Opportunity Costs

**September 7:** No Class (Labor Day)

2. September 9

Marginal Analysis, Supply, Demand, and Market Equilibrium.  
Perloff, Chs. 1 & 2;  
Landsburg, SE. "Giving Your All." Slate 1997  
Economist, Proof that you should get a life, December 2014

**Big Idea:** Marginal Analysis, Sunk Costs

Khan: <https://www.khanacademy.org/economics-finance-domain/microeconomics/choices-opp-cost-tutorial/production-possibilities/v/allocative-efficiency-and-marginal-benefit>

Khan: <https://www.khanacademy.org/economics-finance-domain/microeconomics/choices-opp-cost-tutorial/marginal-utility-tutorial/v/marginal-utility>

Khan: <https://www.khanacademy.org/economics-finance-domain/microeconomics/supply-demand-equilibrium>

Week 2 EconWeb *Optional* Assignment:

Work through EconWeb (Micro): Intro (all parts); Demand & Supply (all parts)

Week 2 EconWeb Current Events Assignments:

[Law School Applications Increase](#)

[Cheap Flights to Europe](#)

3. September 14

Shifts in Supply and Demand; Government Market Interventions (Quotas, Price Floors and Ceilings);

Perloff, Ch. 3, pp. 43-56;

Michael Wines, "Caps on Prices Only Deepen Zimbabweans' Misery," *The New York Times*, August 2, 2007.

Greg Mankiw, "A Veto Threat,"

Hugh Rockoff, "Price Controls,"  
Slate, Legalized Prostitution  
Economist, The baseball-card bubble, December 2014

Khan: <https://www.khanacademy.org/economics-finance-domain/microeconomics/consumer-producer-surplus/deadweight-loss-tutorial/v/minimum-wage-and-price-floors>

4. September 16  
the Shapes of the S and D curves; Elasticity; why it matters  
Perloff, Ch. 3, pp. 58-68  
Grim, R. "Who's Got the Acid?" Slate, 2004  
Hartfort, T. "A Cock-and-Bull Story." Slate 2006  
Aron-Dine, Aviva, Liran Einav, and Amy Finkelstein. "The RAND Health Insurance Experiment, Three Decades Later." *Journal of Economic Perspectives* 27.1 (2013): 197-222.

Khan: <https://www.khanacademy.org/economics-finance-domain/microeconomics/elasticity-tutorial>

**Case Study:** Price Elasticity, Co-pays, and medical care

Week 3 EconWeb Assignment:  
Work though EconWeb: and Elasticity (all parts)

Week 3 EconWeb Current Events Assignments:

[Surf Inspired Fashions](#)  
[Increasing Demand for Mansions](#)  
[U.S. Energy](#)  
[Drug Bust](#)

5. September 21  
Concepts of Economic Surplus, Price Floor and Ceilings; Rent Control and Minimum Wages  
  
Perloff, Ch. 9, pp. 267-295  
Krueger, Alan B. 2001. "Supply and Demand: An Economist Goes to the Super Bowl." Milken Institute Review: A Journal of Economic Policy. 3:2, pp. 22-29  
"Is Santa a Deadweight Loss?" The Economist, 2001  
Brown, Charles. "Minimum wage laws: are they overrated?" *The Journal of Economic Perspectives* (1988): 133-145.  
Economist, Why some economists oppose minimum wages, January 2014

**Case Study:** Minimum Wages

**\*\*\*No Office Hours September 21\*\*\***

6. September 23  
The Market and Welfare Effects of Sales/Unit Taxes and Subsidies  
Some Applications of Consumer Theory: In-kind Transfers, School Vouchers, Excise Subsidies, Paying

for Trash; Evaluating government policies: Surpluses and Shortages

Chapter 5, sections 5.1 (Excise Subsidies, Health Care and Consumer Welfare), 5.2 (Public Schools and the Voucher Proposal), and 5.3 (Paying for Garbage), from Edgar Browning and Mark Zupan, *Microeconomics: Theory and Application*, Wiley, 2002, pp. 118-128.

Alcohol and Cigarette Taxes JEP article (*recommended*)

Friedman, D. Hidden Order: The Economics of Everyday Life. Chapter 4: What would you give to get off a desert island? (*skim*)

Friedman, D. Hidden Order: The Economics of Everyday Life. Chapter 7: Putting It Together (*skim*)

Khan: <https://www.khanacademy.org/economics-finance-domain/microeconomics/consumer-producer-surplus>

**Big Idea:** Incidence

Week 4 EconWeb Assignment:

Work through EconWeb: Consumer Choice: Surplus, Taxation

Week 4 EconWeb Current Events Assignments:

[French Food Taxes](#)

[Cigarette Tax Hikes](#)

## 7. September 28

Externalities and Public goods

Perloff, Ch. 18;

William Vickery, "Principles of Efficient Congestion Pricing," June 1992.

"Rational Extremists." *The Economist*, 2004.

Landsburg, S. "Property is Theft." *Slate* 1997

Landsburg, SE. "No Parking Anytime." *Slate* 2007

NY Times, The Inevitable, Indispensable Property Tax, July 2015

Khan: <https://www.khanacademy.org/economics-finance-domain/microeconomics/consumer-producer-surplus/externalities-topic/v/negative-externalities>

Additional Reading

Gruber, J. "The Economics of Tobacco Regulation." *Health Affairs*, 2002 Vol 21(2).

**Case Study:** Soda Taxation

## 8. September 30

Cost-Benefit Analysis, Discounting, and Present Value;

Perloff, Ch. 16

"The Price of Prudence." *The Economist*, 2004

Brennan, "Discounting the Future: Economics and Ethics"

Week 5 EconWeb Current Events Assignment:

## U.S. Federal Minimum Wage May Increase

### 9. October 5

#### Cost-Benefit Analysis and Policy Issues

Kling, Catherine L., Daniel J. Phaneuf, and Jinhua Zhao. "From Exxon to BP: Has some number become better than no number?." *The Journal of Economic Perspectives* (2012): 3-26.

The Contingent Value Debate

Problems with Contingent Valuation (from dubious to hopeless)

NY Times: New Calculus of Smoking

**Case Study:** Value of a Statistical Life, BP Oil Spill, Contingent Value

### 10. October 7 (**MIDTERM 1**)

### 11. October 12

From Inputs to Outputs to Costs to Supply: the Short-run Supply Curve of a Firm

Perloff, Ch. 7, Ch. 8, pp. 237-253;

Robert Haveman and Kenyon Knopf, *The Market System; An Introduction to Microeconomics*, 4th edition, pp. 94-132.

Barro, R. "Attention Consumers: Creativity Never Comes Cheap." *Business Week*, 2000

Khan: <https://www.khanacademy.org/economics-finance-domain/microeconomics/firm-economic-profit/average-costs-margin-rev/v/marginal-cost-and-average-total-cost>

#### Week 7 EconWeb Assignment:

Work through EconWeb: Production Costs (all parts); and Perfect Competition (all parts).

[Note: The cost concepts/curves on which you should focus are marginal cost (MC) and average total cost (ATC). In going through Production Costs, parts 8 through 11 may be a bit confusing, but keep your eye on MC and ATC.]

#### Week 7 EconWeb Current Events Assignments:

[Rising Ice Cream Production Costs](#)

### 12. October 14

Perfect Competition in the Short- and Long-run; the Process of 'General Equilibration'

Perloff, Ch. 8, pp. 220-236; and Ch. 9, pp. 262-266;

Chapter 10, sections 10.3 (Airline Regulation and Deregulation) and 10.4 (City Taxicab Markets), from Edgar Browning and Mark Zupan, *Microeconomics: Theory and Application*, Wiley, 2002, pp. 274-282.

Robert Haveman and Kenyon Knopf, *The Market System; An Introduction to Microeconomics*, 4th edition, pp. 171-180.

Khan: <https://www.khanacademy.org/economics-finance-domain/microeconomics/perfect-competition-topic/perfect-competition/v/perfect-competition>

### 13. October 19

## Monopoly

Perloff, Ch. 11 (through p 373)

Friedman, D. Hidden Order: The Economics of Everyday Life. Chapter 10: Monopoly for Fun and Profit

Becker, G. "Cracking the Genetic Code: Competition was the Catalyst." Business Week, 2000

Barro, R. "The Best Little Monopoly in America." Business Week, 2002

Khan: <https://www.khanacademy.org/economics-finance-domain/microeconomics/perfect-competition-topic/monopolies-tutorial/v/monopoly-basics>

### 14. October 21

Natural Monopoly and Price Regulations. Price Discrimination, Oligopoly

Perloff, Ch. 13 (through p. 456, skim the rest)

Khan: <https://www.khanacademy.org/economics-finance-domain/microeconomics/perfect-competition-topic/monopolies-tutorial/v/monopoly-basics>

Week 8 EconWeb Assignment:

Work through EconWeb: Monopoly (all parts); Industry Policy (all parts).

Week 8 EconWeb Current Events Assignments:

[Heat Based Vending Machine Prices](#)

[College Texts cheaper outside US](#)

[Diamond Monopolist Changes Century Old Strategy](#)

[Microsoft Anti Trust Case](#)

### 15. October 26

Game Theory/Strategy

Perloff, Ch 14. (through p 477, skim the rest if interested)

Friedman, D. Hidden Order: The Economics of Everyday Life. Chap 11, "Hard Problems: Game Theory, Strategic Behavior and Oligopoly"

"Pricking Consciences." The Economist, 2007

New York Times, Explaining a Cornerstone of Game Theory: John Nash's Equilibrium, May 2015

Khan: <https://www.khanacademy.org/economics-finance-domain/microeconomics/nash-equilibrium-tutorial>

### 16. October 28

Cartels, More Oligopoly

**Case Study:** NCAA

### 17. November 2

Risk and Expected Value

Perloff, Ch. 17

Landsburg, S. "Does Crime Pay?" Slate 1999



Krugman, P. "The Health Care Crisis and What to Do About It." New York Times 2006  
"The Missing Market." Economist, 2004  
Fisman, R. "The Bad Economics of Switching Health Care Plans." Slate

18. November 4

Adverse Selection, Moral Hazard, Lemons

Perloff, Ch. 19 (through p. 637), Ch. 20 (skim)

Chapter 14, sections 14.4 (Asymmetric Information) and 14.5 (Adverse Selection and Moral Hazard), from Edgar Browning and Mark Zupan, *Microeconomics: Theory and Application*, Wiley, 2002, pp. 397-403.

Newhouse JP. Patients At Risk: Health Reform and Risk Adjustment. Health Affairs, Spring 1994; (I): 132-146.

Kuttner, R. "How to Undermine an Ownership Society." Business Week, 2004

Landsburg, SE. The Armchair Economist. Chapter 3: Truth or Consequences

Landsburg, S. "Uninsured Motorist Fun." 1998

Einav, Liran, and Amy Finkelstein. "Selection in Insurance Markets: Theory and Empirics in Pictures." *The Journal of Economic Perspectives* 25.1 (2011): 115-138.

<https://www.youtube.com/watch?v=pmolioUklXI>

19. November 9 (MIDTERM 2)

**20. November 11: No Class Meeting**

*Final Topics Module:* International Trade, Education, Environmental Policies, Labor Market Outcomes

21. November 16

Policies toward Environmental Pollution: Emissions Charges and Tradable Permits

Perloff, Ch. 18, pp. 605-622;

Issue 17: Should Pollution be Put to the Market Test?," from T. Swartz and F. Bonello, *Taking Sides: Clashing Views on Controversial Economic Issues*, Dushkin/McGraw-Hill, 2000.

"A New, Unregulated Market: Selling the Right to Pollute," *The New York Times*, February 6, 1993.

Jeff Goodell, "Capital Pollution Solution," *New York Times Magazine*, July 30, 2006.

Kinnaman, Thomas C. "Policy watch: examining the justification for residential recycling." *The Journal of Economic Perspectives* (2006): 219-232.

22. November 18 --Economic Evaluation of Policy (Soda Tax)/Minimum Wage

Journal of Policy Analysis and Management Point/Counterpoint articles for Soda Tax and Minimum Wage

Supplemental for Soda Tax

<http://www.wpr.org/listen/702026>

23. November 23

Economics of Higher Education

Perloff Chapter 19 (p 638-646)

Michael R. Edgmand, Ronald L. Moomaw, and Kent W. Olson, "College Education: Is It Worth the Cost?," *Economics and Contemporary Issues*, Dryden, 1994.

Robert Haveman and Barbara Wolfe, "More Last Words," *Milken Institute Review*, 2nd Quarter, 2003, pp. 84-90.

Payback Website

NY Times, The Economic Price of Colleges' Failures, September 2014

Big Idea: Signaling and Investments of Human Capital

#### **24. November 25: No Class Meeting**

25. November 30

Discussion of the ACA

Gruber:

<https://www.youtube.com/watch?v=pmolioUkIXI>

[https://www.youtube.com/watch?v=0gOktz\\_vEfQ](https://www.youtube.com/watch?v=0gOktz_vEfQ)

<https://www.youtube.com/watch?v=AqHz2XcUGok>

APPAM

<https://vts.inxpo.com/scripts/Server.nxp?LASCmd=L:0&AI=1&ShowKey=22234&LoginType=0&InitialDisplay=1&ClientBrowser=0&DisplayItem=NULL&LangLocaleID=0>

#### **Readings TBD**

NY Times, How Medical Care Is Being Corrupted, November 2014

26. December 2 (**Vedant Lecture**)

International Trade in the Partial Equilibrium Framework: Gains from Trade, Welfare Effects of Tariffs, Quotas, and Import Controls, Two country welfare analysis

Perloff, Ch. 9, (p. 295-end of chapter);

Ernesto Zedillo, "Shooting Ourselves in the Food," *Forbes*, August 11, 2008.

Paul Krugman, "A Raspberry for Free Trade," *Slate*, available at <http://www.slate.com/id/1926>.

Paul Krugman, "In Praise of Cheap Labor," *Slate*, available at <http://www.slate.com/id/1918>.

Council of Economic Advisers, "Chapter 7: The History and Future of International Trade," *Economic Report of the President*, 2006, GPO, pp. 149-171.

The Doha Round...and Round...and Round," *The Economist*, July 31, 2008.

Chapter 10, sections 10.5 (Consumer and Producer Surplus, and the Net Gains from Trade) and 10.6 (Government Intervention in Markets: Quantity Controls; Sugar Policy), from Edgar Browning and Mark Zupan, *Microeconomics: Theory and Application*, Wiley, 2002, pp. 283-291.

**Big Idea:** Comparative Advantage

Khan: <https://www.khanacademy.org/economics-finance-domain/microeconomics/choices-opp-cost-tutorial/gains-from-trade-tutorial/v/comparative-advantage-specialization-and-gains-from->

[trade](#)

27. December 7  
Inequality

Alvaredo, Facundo, et al. "The Top 1 Percent in International and Historical Perspective." *The Journal of Economic Perspectives* 27.3 (2013): 3-20.

Moffitt, Robert. "The Negative Income Tax and the Evolution of US Welfare Policy." *Journal of Economic Perspectives* 17.3 (2003): 119-140.

28. December 9 (**Vedant Lecture II, Topic TBA**)

29. December 14  
Applying Concepts to Policy Analysis

Leman, Christopher K., and Robert H. Nelson. "Ten commandments for policy economists." *Journal of Policy Analysis and Management* 1.1 (1981): 97-117.

Alan Krueger thoughts on the intersection of economics and policy

<https://youtu.be/wEMA9zgXy80>

<https://youtu.be/VnWsZQXsMiU>

FINAL EXAM: **TBD**