

UNIVERSITY OF WISCONSIN-MADISON
La Follette School of Public Affairs

PUBLIC AFFAIRS 880
MICROECONOMIC POLICY ANALYSIS
Fall 2023

Mondays and Wednesdays: 9:30-10:45am 5106 Sewell Social Sciences

Professor Jason Fletcher: jfletcher@lafollette.wisc.edu

Office Hours: Mondays 11-12pm, 201 Observatory Hill Office Building or online

Teaching Assistant: Nguyen Vuong: nguyen.vuong@wisc.edu

Office Hours: Wednesdays, 12:30-2:30pm, 522 Taylor Hall or online

Version Date: November 21, 2023

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 conceptual framework for analysis and apply this framework to real-world issues. We will examine the choices of individuals, firms, and governments in a variety of market environments. As a core MPA and MIPA course, we will develop competence in important analytical tools and critical thinking skills from the field of economics for the study of public affairs. There will be an emphasis on applying these tools and skills to evaluate existing policy and also to consider the implications of hypothetical policy alternatives. 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. A central issue is to define the meaning of "efficiency" in resource allocation to establish a best-case scenario that can then be compared across 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.

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 focus on 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 that the tools of applied microeconomics can be used to analyze.

Course Canvas Site: I will post problem sets, lecture slides, and supplemental materials to the course Canvas website, among other things. The address is <https://canvas.wisc.edu/courses/368960>. The website includes 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 “Announcements,” 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 9:30-10:45am; Professor Fletcher will be conducting these sessions. All of the Monday and Wednesday sessions will involve formal presentations, but with questions and comments encouraged.

Monday	Joint	9:30AM-10:45AM	5106 Sewell Social Sciences
Wednesday	Joint	9:30AM-10:45AM	5106 Sewell Social Sciences

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

DIS 301	9:55am-10:45am	Friday	574 Van Hise Hall
DIS 302	11:00am-11:50am	Friday	574 Van Hise Hall
DIS 303	12:05pm-12:55pm	Friday	574 Van Hise Hall

In the weekly discussion section, Nguyen 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 scheduling conflicts arise during a particular week, students may substitute another discussion section for the one in which they are registered.

We'll also note that 880 students have two tutors:

Mary Baumgartner, Mondays from 12:00-2:00pm, Sterling Hall 2335;
Johanna Schmidt, Tuesdays from 1:00-3:00pm, Agriculture Hall room 10

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 (see below for date/time). Each of the midterm exams will count for 20 percent of the course grade. The final exam will be comprehensive (i.e., cumulative), and will count for 35 percent of the course grade. Hence, the exams will count for a total of 75 percent of the final course grade. Your homework completion, participation in class and discussion section, and Podcast assignments will account for the remainder (i.e., 25 percent) of the course grade.

Weekly Homework / Problem Sets: With some exceptions, 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 reviewed 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 before the start of class and late homework will **not** be accepted. The homework assignments will be 'graded' using simple check (✓), check-minus (✓-), and check-plus (✓+) grades.

Podcasts. Many lectures will also have a podcast of related material. You will listen to at least two podcasts during the semester and write a short (<1 page) memo about the key ideas in the podcast that intersect with 880 and any implications for ongoing policy debates. If a specific policy is described, be sure to outline winners and losers of the policy. In addition to the memo, students will also create an exam question based on the content of the podcast and be prepared to discuss the basic ideas of the podcast during class or discussion section. Sign up on the Google Doc here **before Midterm 1**: <https://tinyurl.com/24yzuads>

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.

Required Materials:

1. The following book is the recommended 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 reading assignments for each class meeting are shown on the attached class schedule (below). The readings are collected in folders at the Canvas class website. Many class sessions also have Khan Academy links for additional ways of learning the content. See also this excellent [Online Course](#).

Related Readings: Because we will be discussing many current issues and policies, students are expected to keep up with 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 like *The Economist*. The instructor recommends regularly following a podcast such as [Tradeoffs](#) (health policy), [The Weeds](#) or [Freakonomics](#).

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 popular-press 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 these readings.

Communication with Instructor: In addition to office hours, I will typically be available in the classroom before the class lectures. This would be a good time especially to discuss material, ask questions about class logistics, etc. so that I can share responses with the rest of the class during lecture. E-mail

communication is best reserved for timely or highly person-specific matters that cannot be addressed during office hours.

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, Nguyen Vuong. 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.

Course Outline: Materials on Canvas Site: <https://canvas.wisc.edu/courses/368960>

1. September 6:

Introduction to the Course: The Economic Problem: Production Possibilities, Concept of Tradeoffs
Barro: "Pleading the Case".

Skim: DeLong on "[Thinking Like an Economist](#)"

Deep Dive (after class): Mulligan Paper on FDA and Opportunity Costs

Khan: [Opportunity Costs](#)

Big Idea: Opportunity Costs

2. September 11

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

Khan Academy Links: [Marginal Benefits and Efficiency](#), [Marginal Utility](#), [Demand and Supply](#)

Big Idea: Marginal Analysis, Sunk Costs

3. September 13

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

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

Greg Mankiw, "A Veto Threat,"

Slate, Legalized Prostitution

Economist, The baseball-card bubble, December 2014

Khan Academy: [Minimum Wages and Price Floors](#)

Marginal Revolution: [Supply and Demand and Interlinked Markets](#)

4. September 18

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

Marginal Revolution: [Elasticity](#) Khan Academy: [Elasticity](#)

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

5. September 20

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

Economist, Why some economists oppose minimum wages, January 2014

Marginal Revolution: [Price Ceilings and Floors](#)

6. September 25 (note: Yom Kippur)

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.

Friedman, D. Hidden Order: The Economics of Everyday Life. Chapter 4 and 7 (*skim*)

Khan: [Producer and Consumer Surplus](#)

Marginal Revolution: [Taxes and Subsidies](#)

Big Idea: Incidence

7. September 27

Market Failures: Welfare Loss of non-Intervention and Externalities Introduction

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: [Negative Externalities](#)

Marginal Revolution: [Externalities](#)

8. October 2

Negative externalities and policy responses

Handout discussion on tobacco policy: comparing supply restrictions, to "perfect" and "imperfect" tax policies.

Additional Reading

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

9. October 4
Positive Externalities and Public Goods

Marginal Revolution: [Public Goods](#)

10. October 9 (**MIDTERM 1**)

11. October 11

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: [Marginal and Average Costs](#)

12. October 16

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: [Perfect Competition](#)

Marginal Revolution: [Competition, Profit Maximization and Entry/Exit](#)

13. October 18

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: [Monopoly](#)

Marginal Revolution: [Monopoly](#)

14. October 23

Natural Monopoly and Price Regulations. Price Discrimination, Oligopoly

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

Marginal Revolution: [Price Discrimination](#)

15. October 25

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: [Nash Equilibrium](#)

16. October 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"

17. November 1

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 6

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

19. November 8

Nguyen Guest Lecture: Policy Implications of Long Term Effects of Early Childhood Exposures

20. November 13 (**MIDTERM 2**)

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

21. November 15

Information

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; (1): 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.

Gruber [Lecture](#) Video

22. November 20

Health Care and the Affordable Care Act

November 22: No Class Meeting / Thanksgiving Break

23. November 27

Economics of Higher Education and the Labor Market

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 29

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 Foot," *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: [Gains from Trade](#)

Marginal Revolution: [Trade](#)

25. December 4

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.

26. December 6

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.

[Video Conversation](#) between Robert Lucas and Paul Krugman

27. December 11

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>

28. December 13 (Last Class)

Review Session

FINAL EXAM: December 21 from 7:45-9:45 AM, Room SOC SCI 5106

University Policies

Academic Integrity and Honesty

University statement: By enrolling in this course, each student assumes the responsibilities of an active participant in UW-Madison's community of scholars in which everyone's academic work and behavior are held to the highest academic integrity standards. Academic misconduct compromises the integrity of the university. Cheating, fabrication, plagiarism, unauthorized collaboration, and helping others commit these acts are examples of academic misconduct, which can result in disciplinary action. This includes but is not limited to failure on the assignment/course, disciplinary probation, or suspension. Substantial or repeated cases of misconduct will be forwarded to the Office of Student Conduct & Community Standards for additional review.

For more information, refer to <https://conduct.students.wisc.edu/academic-misconduct/>.

Accommodations for Disabilities

McBurney Disability Resource Center statement: The University of Wisconsin-Madison supports the right of all enrolled students to a full and equal educational opportunity. The Americans with Disabilities Act (ADA), Wisconsin State Statute (36.12), and UW-Madison policy (Faculty Document 1071) require that students with disabilities be reasonably accommodated in instruction and campus life. Reasonable accommodations for students with disabilities is a shared faculty and student responsibility. Students are expected to inform faculty [me] of their need for instructional accommodations by the end of the third week of the semester, or as soon as possible after a disability has been incurred or recognized. Faculty [I], will work either directly with the student [you] or in coordination with the McBurney Center to identify and provide reasonable instructional accommodations. Disability information, including instructional accommodations as part of a student's educational record, is confidential and protected under FERPA.

Please find more information and resources at: <http://mcburney.wisc.edu>.