

Price School of Public Policy
University of Southern California

PPD 503: Economics for Public Policy

Fall 2021
Mondays, 6-9:20 PM PST
RLG 101

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Objectives and Requirements:

This course will provide you with the microeconomic foundations required to conduct analysis of public sector problems. In the first half of the course you will learn how markets work, with lessons on supply and demand, consumer theory, production and cost minimization, and firm theory. Concepts of private and social efficiency will also be addressed. The first half concludes with a discussion of macroeconomic concepts of GDP, inflation, and unemployment, and why they are important to those that work in or interact with the public sector.

The second half focuses on the role that the public sector may play in markets that are inefficient or inequitable. We will study the main ways in which markets can fail, and in turn, options that can be used to correct for a variety of such failures. We will discuss the challenges associated with making policy and management choices that are intended to remedy these situations. We will also discuss the role of economic equity in policy choices, and conclude with a brief focus on how government itself can sometimes cause failure.

No previous background in economics is necessary for successful completion of the class.

Any student requesting academic accommodations based on a disability is required to register with Disability Services and Programs (DSP) each semester. A letter of verification for approved accommodations can be obtained from DSP. Please be sure the letter is delivered to me as early in the semester as possible. DSP is located in GFS 120 and is open 8:30 a.m. – 4:30 p.m., Monday through Friday. The phone number for DSP is (213)740-0776.

Students are expected to adhere to the University Student Conduct Code as outlined by *SCampus*. The syllabus appendix summarizes these rules.

Grading:

Students are expected to complete all assignments on time. There will be 11 Problem sets. Problem sets will be submitted online every week Mondays by 6PM. The TAs will be posting instructions on blackboard on how to submit the problem sets. These can be solved in groups, but each student needs to turn in their answers.

To foster group discussion and reflection on current economic and policy issues, Ted Talks (in video format) will be assigned weekly, and a 1paragraph reflection on the talk is expected. There will be 9 Ted Talks. These group reflection exercises will be performed in groups of 4 students assigned. Groups will be assigned by the TAs. Each group will post their paragraph on a discussion board (Group reflection) by Wednesday of every week; each group is also responsible to comment on another group's post. The TAs will be posting instructions on how to submit your paragraph to the discussion board. These groups will rotate throughout the semester.

The score on these assignments will drop 10% per day late.

Both the midterm and the final exam will be (in class) close book exams.

Problem Sets/Case studies	15 %
Group Reflections	10 %
Group Blackboard Comment	5 %
Midterm Exam	30 %
<u>Final Exam</u>	<u>40 %</u>
Total	100 %

Logistics:

There will be a live session at the time of the class on RLG 101, and the lecture will be recorded.

The recorded lecture will be posted on blackboard.

All ted-talks will be posted on blackboard.

Assignments will be posted on blackboard.

Exam Schedule:

The date and time for the final exam are dictated by the University, see

<https://classes.usc.edu/term-20213/finals/>

Readings:

The readings will come primarily from two texts. The first, *Microeconomics* (7th, 8th, or 9th Edition), by Robert Pindyck and Daniel Rubinfeld, will be used throughout the semester. I use the 9th edition. The 7th and 8th editions have some different examples, but the core content and organization are unchanged. Feel free to save yourself some money with an older edition.

The second text, *Policy Analysis* (6th Edition) by David L. Weimer and Aidan R. Vining, will be used starting after the midterm exam. This text is more focused on policy applications, so it is more important that you acquire the most recent edition.

You should attempt complete readings before the corresponding lecture.

Course Schedule:

- August 23 **Prices and Markets. Pindyck and Rubinfeld Chapters 1, 2.** We will discuss the basic structure of supply and demand analysis. We will analyze the role of prices in markets and their ability to allocate resources. The central concepts of marginal analysis, opportunity cost, and equilibrium will be introduced.
Group Reflection 1 is due August 25
- August 30 **Demand Theory. Pindyck and Rubinfeld Chapters 3, 4.** *(The Chapter 4 Appendix is optional for those interested in a more mathematical treatment of demand theory.)* We will discuss the determinants that affect consumer demand, in particular using the concepts of budget constraints and indifference curves. We will learn how individual consumer decisions aggregate to market demand.
Problem Set 1 and Group Comment on another group's reflection 1 due August 30
Group Reflection 2 is due September 1
- September 7 (Online) **Production and Cost Theory. Pindyck and Rubinfeld Chapters 6, 7.** *(You only need to skim Sections 7.6 and 7.7. The Chapter 7 Appendix is optional for those interested in a more mathematical treatment of cost theory.)* We will discuss how profit maximizing firms choose how to allocate scarce inputs towards the production of output. The roles of the cost of capital and wages will be discussed. We will also emphasize the distinction between short-run and long-run decisions.
Problem Set 2 and Group Comment on another group's reflection 2 due September 7
Group Reflection 3 is due September 9
Comment: Since September 6 is Labor Day, we will not meet in person this week. Instead, and to avoid leaving this group behind by one week, I will post the recorded lecture I will give to the Tuesday class on September 7
- September 13 **Efficiency, Government Intervention, and General Equilibrium. Pindyck and Rubinfeld Chapter 16.** We will conclude our discussions on efficiency and government intervention from the previous lecture. We will also discuss the concept of general equilibrium.
Problem Set 3 and Group Comment on another group's reflection 3 due September 13
Group Reflection 4 is due September 15
- September 20 **Uncertainty. Pindyck and Rubinfeld Chapter 5. Slovic, Paul (1987), "Perception of Risk," *Science*, New Series, 236 (4799), 280-285.** We will discuss consumer attitudes toward risk and how economic agents make decisions when faced with uncertainty. We will also discuss the role that insurance markets play in the economy.

Problem Set 4 and Group Comment on another group's reflection 4 due September 20

Group Reflection 5 is due September 22

September 27 **Macroeconomics and Review.** We will introduce some of the basic issues in macroeconomics. The lecture will include a discussion of Gross Domestic Product (GDP), unemployment, and inflation. We will also review for the final.
Problem Set 5 and Group Comment on another group's reflection 5 due September 27

October 4 **Midterm**

October 11 **Non-Competitive Markets and Regulation. Pindyck and Rubinfeld Chapters 10, 12. Weimer and Vining Chapter 4 (pages 59-73) and pages 98-104.** We will discuss the inefficiency that arises when firms have market power. While firms are more profitable when they have monopoly power, we will discuss the impacts on the overall market. We will also discuss policies meant to mitigate inefficiencies in noncompetitive markets.

October 18 **Externalities. Pindyck and Rubinfeld Chapter 18. Weimer and Vining pages 74-98.** We will discuss externalities, instances in which the behavior of one or more economic agents places benefits or costs on market non-participants, and the corresponding inefficiency that arises. We will also discuss public goods that are nonexcludable and/or nonrival. Market economies tend to consume or supply at inefficient levels, so we will address various policies that may remedy these inefficiencies.
Problem Set 6 due October 18
Group Reflection 6 is due October 20

October 25 **Externalities. Applications: Climate Change; Transportation related externalities**
Problem Set 7 and Group Comment on another group's reflection 6 due October 25
Group Reflection 7 is due October 27

November 1 **Public Goods.**
Problem Set 8 and and Group Comment on another group's reflection 7 is due November 1
Group Reflection 8 is due November 3

November 8 **Asymmetric Information: Adverse Selection Pindyck and Rubinfeld Chapter 17. Weimer and Vining pages 104-113.** We will discuss problems that arise from asymmetric information in markets, namely adverse selection.
Problem Set 9 and Group Comment on another group's reflection 8 is due November 8

November 15 **Asymmetric Information: Moral Hazard Pindyck and Rubinfeld Chapter 17. Weimer and Vining pages 104-113.** We will discuss problems that arise from asymmetric information in markets, namely moral hazard.
Problem Set 10 due November 15
Group Reflection 9 is due November 17

November 22 **Government Redistribution and Government Failures. Weimer and Vining Chapters 7-10.** We will discuss the challenges of incorporating equity concerns into economic policy. We will also discuss the problems that arise when governments try to translate citizens' personal and social preferences into viable policy.
Problem Set 11 and Group Comment on another group's reflection 9. due November 22

November 29 **Inequality and Government Redistribution. Review.** In addition to concluding our discussion from the previous session, we will also review for the final.

University Exam Period

Final Exam The date and time for the final exam are dictated by the University, see:
<https://classes.usc.edu/term-20213/finals/>

Links to the Ted Talks:

1. The COVID-19 crisis is a chance to do capitalism differently
https://www.ted.com/talks/mariana_mazzucato_the_covid_19_crisis_is_a_chance_to_do_capitalism_differently
2. The unpaid work that GDP ignores – and why it really counts
https://www.ted.com/talks/marilyn_waring_the_unpaid_work_that_gdp_ignores_and_why_it_really_counts
3. Why do competitors open their stores next to one another?
https://www.ted.com/talks/jac_de_haan_why_do_competitors_open_their_stores_next_to_one_another
4. Why governments should prioritize well-being?
https://www.ted.com/talks/nicola_sturgeon_why_governments_should_prioritize_well_being
5. The psychology behind irrational decisions
https://www.ted.com/talks/sara_garofalo_the_psychology_behind_irrational_decisions
6. The Economic Benefits of Climate Action
https://www.ted.com/talks/marcelo_mena_the_economic_benefits_of_climate_action
7. A Climate solution where all sides win
https://www.ted.com/talks/ted_halstead_a_climate_solution_where_all_sides_can_win
8. Should you donate differently
https://www.ted.com/talks/joy_sun_should_you_donate_differently
9. Racism has cost for everybody
https://www.ted.com/talks/heather_c_mcgee_racism_has_a_cost_for_everyone

Statement on Academic Conduct and Support Systems

Academic Conduct:

Plagiarism – presenting someone else’s ideas as your own, either verbatim or recast in your own words – is a serious academic offense with serious consequences. Please familiarize yourself with the discussion of plagiarism in SCampus in Part B, Section 11, “Behavior Violating University Standards” policy.usc.edu/scampus-part-b. Other forms of academic dishonesty are equally unacceptable. See additional information in SCampus and university policies on scientific misconduct, policy.usc.edu/scientific-misconduct.

Support Systems:

Student Health Counseling Services - (213) 740-7711 – 24/7 on call

engemannshc.usc.edu/counseling

Free and confidential mental health treatment for students, including short-term psychotherapy, group counseling, stress fitness workshops, and crisis intervention.

National Suicide Prevention Lifeline - 1 (800) 273-8255 – 24/7 on call

suicidepreventionlifeline.org

Free and confidential emotional support to people in suicidal crisis or emotional distress 24 hours a day, 7 days a week.

Relationship and Sexual Violence Prevention Services (RSVP) - (213) 740-4900 – 24/7 on call

engemannshc.usc.edu/rsvp

Free and confidential therapy services, workshops, and training for situations related to gender-based harm.

Office of Equity and Diversity (OED) | Title IX - (213) 740-5086

equity.usc.edu, titleix.usc.edu

Information about how to get help or help a survivor of harassment or discrimination, rights of protected classes, reporting options, and additional resources for students, faculty, staff, visitors, and applicants. The university prohibits discrimination or harassment based on the following protected characteristics: race, color, national origin, ancestry, religion, sex, gender, gender identity, gender expression, sexual orientation, age, physical disability, medical condition, mental disability, marital status, pregnancy, veteran status, genetic information, and any other characteristic which may be specified in applicable laws and governmental regulations.

Bias Assessment Response and Support - (213) 740-2421

studentaffairs.usc.edu/bias-assessment-response-support

Avenue to report incidents of bias, hate crimes, and microaggressions for appropriate investigation and response.

The Office of Disability Services and Programs - (213) 740-0776

dsp.usc.edu

Support and accommodations for students with disabilities. Services include assistance in providing readers/notetakers/interpreters, special accommodations for test taking needs, assistance with architectural barriers, assistive technology, and support for individual needs.

USC Support and Advocacy - (213) 821-4710

studentaffairs.usc.edu/ssa

Assists students and families in resolving complex personal, financial, and academic issues adversely affecting their success as a student.

Diversity at USC - (213) 740-2101

diversity.usc.edu

Information on events, programs and training, the Provost's Diversity and Inclusion Council, Diversity Liaisons for each academic school, chronology, participation, and various resources for students.

USC Emergency - UPC: (213) 740-4321, HSC: (323) 442-1000 – 24/7 on call

dps.usc.edu, emergency.usc.edu

Emergency assistance and avenue to report a crime. Latest updates regarding safety, including ways in which instruction will be continued if an officially declared emergency makes travel to campus infeasible.

USC Department of Public Safety - UPC: (213) 740-6000, HSC: (323) 442-120 – 24/7 on call

dps.usc.edu

Non-emergency assistance or information.

APPENDIX

ACADEMIC RESPONSIBILITY

Students, faculty, and administrative officials at the University of Southern California, as members of the academic community fulfill a purpose and a responsibility.

The University must, therefore, provide an optimal learning environment, and all members of the University community have a responsibility to provide and maintain an atmosphere of free inquiry and expression. The relationship of the individual to this community involves these principles: Each member has an obligation to respect:

1. THE FUNDAMENTAL HUMAN RIGHTS OF OTHERS
2. THE RIGHTS OF OTHERS BASED UPON THE NATURE OF THE EDUCATIONAL PROCESS
3. THE RIGHTS OF THE INSTITUTION

ACADEMIC DISHONESTY

The following statements and examples explain specific acts of academic dishonesty.

1. Examination Behavior: Any use of external assistance during an exam is considered academically dishonest unless expressly permitted.
 - a. Communicating in any way with another student during the examination.
 - b. Copying material from another student's exam.
 - c. Using unauthorized notes, calculators or other devices.
2. Fabrication: Any intentional falsification or invention of data or citation in an academic exercise will be considered a violation of academic integrity.
 - a. Inventing or altering data for a laboratory experiment or field project.
 - b. Resubmitting returned and corrected academic work under the pretense of grader evaluation error, when, in fact, the work has been altered from its original state.
3. Plagiarism: Plagiarism is the theft and subsequent passing off of another's ideas or words as one's own. If the words or ideas of another are used, acknowledgement of the original source must be made through recognized referencing practice.
 - a. Direct Quotation: Any use of a direct quotation should be acknowledged by footnote citation and by either quotation marks or appropriate indentation

and spacing.

- b. Paraphrase: If another's ideas are borrowed in whole or in part and are merely recast in the student's own words, proper acknowledgement must, nonetheless, be made. A footnote or proper internal citation must follow the paraphrase material.

4. Other Types of Academic Dishonesty:

- a. Submitting a paper written by another;
- b. Using a paper or essay in more than one class without the instructor's express permission;
- c. Obtaining an advance exam copy without the knowledge or consent of the instructor;
- d. Changing academic records outside of normal procedures;
- d. Using another person to complete homework assignment or take-home exam without the knowledge and consent of the instructor.

The above information is taken directly from *SCampus* and the Academic Affairs Unit of the Student Senate in conjunction with the Academic Standards Committee.

**ACADEMIC DISHONESTY
SANCTION GUIDELINES**

VIOLATION

RECOMMENDED SANCTION
(assuming first offense)

Copying answers from other students on exam.

F for course.

One person allowing another to cheat from his/her exam or assignment.

F for course for both persons.

Possessing or using extra material during exam (crib sheets, notes, books, etc.)

F for course.

Continuing to write after exam has ended.

F or zero on exam.

Taking exam from room and later claiming that the instructor lost it.

F for course and recommendation for further disciplinary action (possible suspension).

Changing answers after exam has been returned.

F for course and recommendation for disciplinary action (possible suspension).

Fraudulent possession of exam prior to administration.	F for course and recommendation for suspension.
Obtaining a copy of an exam or answer key prior to administration.	Suspension or expulsion from the university; F for course.
Having someone else take an exam for oneself.	Suspension or expulsion from the University for both students; F for course.
Plagiarism.	F for the course.
Submission of purchased term papers or papers done by others.	F for the course and recommendation for further disciplinary action. (possible suspension)
Submission of the same term papers to more than one instructor where no previous approval has been given.	F for both courses.
Unauthorized collaboration on an assignment.	F for the course for both students.
Falsification of information in admission application (including supporting documentation).	Revocation of university admission without opportunity to apply.
Documentary falsification (e.g., petitions and supporting materials medical documentation).	Suspension or expulsion from the university; F for course when related to a specific course.
Plagiarism in a graduate thesis or dissertation.	Expulsion from the university when discovered prior to graduation; revocation of degree when discovered subsequent to graduation.

Please refer to *Trojan Integrity: A Faculty Desk Reference*, for more information on assessing sanctions. You may also consult with members of the Office of Student Judicial Affairs and Community Standards at any point in the process, (213) 740-6666

Note: The Student Conduct Code provides that graduate students who are found responsible for academic integrity violations may be sanctioned more severely than Appendix A suggests.