

USC Marshall

FBE 402. GOVERNMENT AND BUSINESS

Professor John G. Matsusaka

Fall 2023

MW 4:00 – 5:50 pm

SYLLABUS

Overview

This course focuses on the interaction between government and business, drawing on concepts from economics, political science, and law. The goal is to understand (1) the consequences of government regulation of business, (2) the reasons governments regulate business, and (3) the consequences for managing a business.

The behavior of government and politicians can be mystifying, if not frustrating – a primary purpose of the class is to provide rigorous scientific frameworks that can explain government actions and political behavior that otherwise seem puzzling. In addition to developing theoretical frameworks, the class takes a close look at contemporary political controversies, such as the minimum wage, climate regulation, elections and interest groups, political polarization, and ESG investing.

The interaction of government and business varies by country and over time, but involves a number of general principles that apply in almost all cases. Many of our class examples will focus on the United States because it comprises the world's largest economy and everyone in the class has some familiarity with it, but we will not assume a deep understanding of U.S. institutions, and we will also consider other democracies around the world.

Learning Objectives

- Identify and recognize the different ways that governments impact business.
- Identify the efficiency and equity consequences of government regulations.
- Develop a theoretical understanding of how democracies work: starting from individual voters moving through to enactment and enforcement of laws.
- Understand why democracies so often appear to fall short of their aspirations.
- Gain insights into current policy controversies.
- Develop the ability to analyze the strengths and weaknesses of competing claims.

Course Methods

Class meetings are organized around lectures that develop models and discuss empirical results. Class meetings will be informal in order to create a participatory environment, and may occasionally deviate to discuss breaking news or issues raised during discussion. Questions and comments are helpful to collective learning as the class thinks through the

issues before us. Students will prepare two short reports, working in teams, and make brief presentations to the class.

Open Expression and Respect for All

An important goal of the educational experience at USC Marshall is to be exposed to and discuss diverse, thought-provoking, and sometimes controversial ideas that challenge one's beliefs. This course encourages the values articulated in the USC Marshall "[Open Expression Statement](#)."

Grades

Presentation/report 1	20%
Presentation/report 2	20%
Participation	10%
Quiz on models	20%
Final report (Dec. 7)	30%

This class is not graded on a curve – all students are evaluated according to their individual performance. Following Marshall guidelines, the target mean GPA is 3.5; this is a rough goal, not a hard commitment. The topics, format, and approach of reports and presentations will be discussed as the semester progresses. As will be discussed, reports are expected to be independent and original work, but can make use of writing and research tools such as AI. Participation points are awarded based on attending the class, being prepared, asking questions, and offering thoughts. Extra credit opportunities may be available, as discussed during class meetings.

Contact Information

Please do not hesitate to contact me if you have questions about the class. If email is convenient: matsusak@usc.edu. I am happy to meet in person by appointment or by Zoom.

Class Notes Policy

Pursuant to the USC Student Handbook (www.usc.edu/scampus, Part B, 11.12), students may not record a university class without the express permission of the instructor and announcement to the class. In addition, students may not distribute or use notes or recordings based on University classes or lectures without the express permission of the instructor for purposes other than personal or class-related group study by individuals registered for the class. This restriction on unauthorized use applies to all information that is distributed or displayed for use in relationship to the class.

Academic Integrity

The University of Southern California is a learning community committed to developing successful scholars and researchers dedicated to the pursuit of knowledge and the dissemination of ideas. Academic misconduct, which includes any act of dishonesty in the production or submission of academic work, compromises the integrity of the person who commits the act and can impugn the perceived integrity of the entire university community. It stands in opposition to the university's mission to research, educate, and contribute productively to our community and the world.

All students are expected to submit assignments that represent their own original work, and that have been prepared specifically for the course or section for which they have been submitted. You may not submit work written by others or “recycle” work prepared for other courses without obtaining written permission from the instructor(s).

Other violations of academic integrity include, but are not limited to, cheating, plagiarism, fabrication (e.g., falsifying data), collusion, knowingly assisting others in acts of academic dishonesty, and any act that gains or is intended to gain an unfair academic advantage.

The impact of academic dishonesty is far-reaching and is considered a serious offense against the university. All incidences of academic misconduct will be reported to the Office of Academic Integrity and could result in outcomes such as failure on the assignment, failure in the course, suspension, or even expulsion from the university.

For more information about academic integrity see [the student handbook](#) or the [Office of Academic Integrity's website](#), and university policies on [Research and Scholarship Misconduct](#).

Please ask your instructor if you are unsure what constitutes unauthorized assistance on an exam or assignment, or what information requires citation and/or attribution.

Students and Disability Accommodations

USC welcomes students with disabilities into all of the University's educational programs. [The Office of Student Accessibility Services](#) (OSAS) is responsible for the determination of appropriate accommodations for students who encounter disability-related barriers. Once a student has completed the OSAS process (registration, initial appointment, and submitted documentation) and accommodations are determined to be reasonable and appropriate, a Letter of Accommodation (LOA) will be available to generate for each course. The LOA must be given to each course instructor by the student and followed up with a discussion. This should be done as early in the semester as possible as accommodations are not retroactive. More information can be found at osas.usc.edu. You may contact OSAS at (213) 740-0776 or via email at osasfrontdesk@usc.edu.

Support Systems

- [Counseling and Mental Health](#) - (213) 740-9355 – 24/7 on call. Free and confidential mental health treatment for students, including short-term psychotherapy, group counseling, stress fitness workshops, and crisis intervention.
- [988 Suicide and Crisis Lifeline](#) - 988 for both calls and text messages – 24/7 on call. The 988 Suicide and Crisis Lifeline (formerly known as the National Suicide Prevention Lifeline) provides free and confidential emotional support to people in suicidal crisis or emotional distress 24 hours a day, 7 days a week, across the United States. The Lifeline is comprised of a national network of over 200 local crisis centers, combining custom local care and resources with national standards and best practices. The new, shorter phone number makes it easier for people to remember and access mental health crisis services (though the previous 1 (800) 273-8255 number will continue to function indefinitely) and represents a continued commitment to those in crisis.
- [Relationship and Sexual Violence Prevention Services \(RSVP\)](#) - (213) 740-9355(WELL) – 24/7 on call. Free and confidential therapy services, workshops, and training for situations related to gender- and power-based harm (including sexual assault, intimate partner violence, and stalking).
- [Office for Equity, Equal Opportunity, and Title IX \(EEO-TIX\)](#) - (213) 740-5086. Information about how to get help or help someone affected by harassment or discrimination, rights of protected classes, reporting options, and additional resources for students, faculty, staff, visitors, and applicants.
 - [Reporting Incidents of Bias or Harassment](#) - (213) 740-5086 or (213) 821-8298. Avenue to report incidents of bias, hate crimes, and microaggressions to the Office for Equity, Equal Opportunity, and Title for appropriate investigation, supportive measures, and response.
 - [The Office of Student Accessibility Services \(OSAS\)](#) - (213) 740-0776. OSAS ensures equal access for students with disabilities through providing academic accommodations and auxiliary aids in accordance with federal laws and university policy.
 - [USC Campus Support and Intervention](#) - (213) 740-0411. Assists students and families in resolving complex personal, financial, and academic issues adversely affecting their success as a student.
 - [Diversity, Equity and Inclusion](#) - (213) 740-2101. 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. 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) 442-1200 – 24/7 on call. Non-emergency assistance or information.
- [Office of the Ombuds](#) - (213) 821-9556 (UPC) / (323-442-0382 (HSC) . A safe and confidential place to share your USC-related issues with a University Ombuds who will work with you to explore options or paths to manage your concern.
- [Occupational Therapy Faculty Practice](#) - (323) 442-2850 or otfp@med.usc.edu . Confidential Lifestyle Redesign services for USC students to support health promoting habits and routines that enhance quality of life and academic performance.

SCHEDULE AND READINGS

The following schedule is provisional and may be modified as the semester progresses. The quiz and report dates will not change. Additional readings and materials will be added throughout the course. Readings with an asterisk are optional.

Week	Topic	Readings
Part 1. Effects of Regulation		
Aug. 21	Introduction	
Aug. 23	Basic economics of markets	ER 2, 3; N1 [CM 5, 6, 13]
Aug. 28	Price and quantity controls, taxes and subsidies	ER 4A-4E
Aug. 30	Monopoly; antitrust; intellectual property	ER 4F; 1-A, 1-B; 1-C; 1-D
Sep. 4	LABOR DAY	
Sep. 6	Entry barriers	ER 4G; 1-E
Sep. 11	Product safety; value of life	ER 5A; 1-F; 1-G; 1-H
Sep. 13	Workplace conditions; compensating differentials	ER 5B
Sep. 18	Externalities	ER 6; 1-I
Sep. 20	Conclusion of regulation	
Sep. 25	Presentations 1	
Part 2. Causes of Regulation		
Sep. 27	Supply and demand for regulation	2-A; 2-B
Oct. 2	Voting – participation	N2; 2-C; 2-D
Oct. 4	Voting – information	2-D
Oct. 9	Median voter model	N3
Oct. 11	Review of models	
Oct. 16	QUIZ ON MODELS	
Oct. 18	Gerrymandering	2-E; 2-F
Oct. 23	Polarization	2-G; 2-H; 2-I; 2-J
Oct. 25	Representation	LTPR 3, 4; 2-L
Oct. 30	Administrative state	LTPR 1; 2-M
Nov. 1	Experts	2-N

Nov. 6	Judges	LTPR 2; 2-0
Nov. 8	Direct democracy	LTPR 5, 6, 7, 12 [8, 13 optional]
Nov. 13	Presentations 2	
Part 3. Business Strategies for Political Involvement		
Nov. 15	Corporate political spending	3-A; 3-B; 3-C
Nov. 20	Goals of the firm	3-D; 3-E; 3-F
Nov. 22	THANKSGIVING	3-G
Nov. 27	Stakeholders	3-H
Nov. 29	Conclusion of strategies	
Dec. 7	Final Report	

ER Matsusaka, John G., *Economic Effects of Regulation*, 2023. [notes]

LTPR Matsusaka, John G., *Let the People Rule*, 2020

CM Camara, Odilon & Anthony M. Marino, *Microeconomics for Business*, 2022.

N1 Matsusaka, John G., *Efficiency and Equity*, 2023. [notes]

N2 Matsusaka, John G., *The Calculus of Voting*, 2022. [notes]

N3 Matsusaka, John G., *Median Voter Model*, 2023. [notes]

Part 1. Effects of Regulation / How Government Affects Business

*Neumark, David and Peter Shirley, "Myth or Measurement: What Does the New Minimum Wage Research Say about Minimum Wages and Job Loss in the United States?," *Industrial Relations*, October 2022.

*Clemens, Jeffrey, "How Do Firms Respond to Minimum Wage Increases? Understanding the Relevance of Non-Employment Margins," *Journal of Economic Perspectives*, Winter 2021.

[1-A] Guide to Antitrust Laws, Federal Trade Commission: <https://www.ftc.gov/advice-guidance/competition-guidance/guide-antitrust-laws>

[1-B] History of Antitrust: <https://www.youtube.com/watch?v=XXLQ2ZKQus0>.

[1-C] "Mickey Mouse and Copyright Law," Tech Insider: <https://www.youtube.com/watch?v=6u7JkQAFMw>.

[1-D] “How Disney Shaped Modern Copyright Law,” Brucesnoop:
<https://www.youtube.com/watch?v=DDbbQ9lKI6g>.

[1-E] Djankov, Simeon, Rafael La Porta, Florencio Lopez-de-Silanes, and Andrei Shleifer, “The Regulation of Entry,” *Quarterly Journal of Economics*, February 2002. [Sections I, II, III; other sections optional]

*World Bank, *Doing Business*, 2020.

[1-F] The White House, *Occupational Licensing: A Framework for Policymakers*, July 2015.

[1-G] “Economics: How to Calculate the Value of Life”:
<https://www.youtube.com/watch?v=HfdP5ljXnM>.

[1-H] “Value of a Statistical Life,” USC Marshall Tommy Talks:
<https://www.youtube.com/watch?v=phOZLaT-jtE>.

[1-I] Currie, Janet and Reed Walker, “What Do Economists Have to Say about the Clean Air Act 50 Years after the Establishment of the Environmental Protection Agency?,” *Journal of Economic Perspectives*, Fall 2019.

*Aldy, Joseph E., Maximilian Auffhammer, Maureen Cropper, Arthur Fraas, and Richard Morgenstern, “Looking Back at 50 Years of the Clean Air Act,” *Journal of Economic Literature*, 2022.

*Keiser, David A. and Joseph S. Shapiro, “US Water Pollution Regulation over the Past Half Century: Burning Waters to Crystal Springs?,” *Journal of Economic Perspectives*, Fall 2019.

*Metcalf, Gilbert E., “Market-based Policy Options to Control U.S. Greenhouse Gas Emissions,” *Journal of Economic Perspectives*, Spring 2009.

Part 2. Causes of Regulation / Why Government Does What It Does

[2-A] Stigler, George J., “The Theory of Economic Regulation,” *Bell Journal of Economics and Management Science*, 1971.

[2-B] Olson, Mancur, *The Logic of Collective Action*, 1962. [Chapter 1.]

[2-C] Downs, Anthony, *An Economic Theory of Democracy*, 1957. [Chapters 11-13.]

[2-D] Cantoni, Enrico and Vincent Pons, “Strict ID Laws Don’t Stop Voters: Evidence from a U.S. Nationwide Panel,” *Quarterly Journal of Economics*, 2021.

[2-F] Gilligan, Thomas W. and John G. Matsusaka, “Public Choice Principles of Redistricting,” *Public Choice*, 2006. [Sections 1, 2, 4.2 [skip Prop. 4], 4.3]

[2-G] Web pages on redistricting: National Conference of State Legislatures: browse
<https://www.ncsl.org/research/redistricting/ncsl-s-redistricting-resources.aspx>.

[2-H] McCarty, Nolan M., Keith T. Poole, and Howard Rosenthal, *Polarized America: The Dance of Ideology and Unequal Riches*, second edition, 2006: chapter 2.

[2-I] Fiorina, Morris and Samuel J. Abrams, "Political Polarization in the American Public," *Annual Review of Political Science*, 2008.

*Abramowitz, Alan I. and Kyle L. Saunders, "Is Polarization a Myth?," *Journal of Politics*, 2008.

[2-J] Iyengar, Shanto and Sean J. Westwood, "Fear and Loathing Across Party Lines: New Evidence on Group Polarization," *American Journal of Political Science*, 2015. [Study 2 only]

[2-K] Boxell, Levi, Matthew Gentzkow, and Jesse M. Shapiro, "Cross Country Trends in Affective Polarization," *Review of Economics and Statistics*, 2022.

[2-L] Przeworski, Stokes, and Manin, "Elections and Representation," in *Democracy, Accountability, and Representation*, 1999. [Chapter 1]

*Matsusaka, John G., "When Do Legislators Represent Their Constituents?," working paper, 2022. [More details]

[2-M] Yackee, Susan Webb, "The Politics of Rulemaking in the United States," *Annual Review of Political Science*, 2019.

*Yackee, Jason Webb and Susan Webb Yackee, "A Bias Towards Business? Assessing Interest Group Influence on the U.S. Bureaucracy," *Journal of Politics*, 2006.

[2-N] Matsusaka, "COVID and experts: A microcosm of democracy today," October 9, 2020: <https://press.princeton.edu/ideas/covid-and-experts-a-microcosm-of-democracy-today>.

*Wallach, Philip A., "The Administrative State's Legitimacy Crisis," Brookings, 2016. [Progressive]

*Postell, Joseph, "From Administrative State to Constitutional Government," Heritage Foundation, 2021. [Conservative]

*Sanchez-Cuenca, Ignacio, "From a Deficit of Democracy to a Technocratic Order: The Postcrisis Debate in Europe," *Annual Review of Political Science*, 2017. [European perspective]

[2-O] Hasen, Richard L., "Polarization and the Judiciary," *Annual Review of Political Science*, 2019.

*Posner, Richard, *How Judges Think*, 2008.

*Lupia, Arthur, "Dumber than Chimps? An Assessment of Direct Democracy Voters," in *Dangerous Democracy: The Battle Over Ballot Initiatives in America*, edited by L. J. Sabato, B. Larson, and H. Ernst, 2001.

+*Matsusaka, John G., “Is Direct Democracy Good or Bad for Corporations and Unions?,” *Journal of Law and Economics*, 2023.

Part 3. How Business Affects Government

[3-A] Federal campaign finance laws and regulations:

https://ballotpedia.org/Federal_campaign_finance_laws_and_regulations

[3-B] Dawood, Yasmin, “Campaign Finance and American Democracy,” *Annual Review of Political Science*, 2015.

[3-C] Drutman, Lee, *The Business of America Is Lobbying: How Corporations Became Politicized and Politics Became More Corporate*, 2015. [Chapter 1; Chapter 2 optional]

*Jacobson, Gary C., “How Do Campaigns Matter?,” *Annual Review of Political Science*, 2015.

*Milyo, Jeffrey, David Primo, and Tim Groseclose, “Corporate PAC Campaign Contributions in Perspective,” *Business and Politics*, 2000.

*Center for Political Accountability, *2021 CPA-Zicklin Index of Corporate Political Disclosure and Accountability*, 2021.

[3-D] Friedman, Milton, “The Social Responsibility of Business is to Increase Its Profits,” *New York Times*, September 13, 1970. [Well known argument for value maximization]

[3-E] *Milton Friedman 50 Years Later*, edited by L. Zingales, J. Kasperkevic, and A. Schechter, Stigler Center at the University of Chicago Booth School of Business, eBook, 2020: <https://promarket.org/2020/11/17/ebook-milton-friedman-50-years-later/>. [Read a few articles of your choice]

[3-F] Business Roundtable, “Statement on the Purpose of the Corporation,” August 19, 2019. See also: <https://opportunity.businessroundtable.org/ourcommitment/>.

[3-G] Stobierski, Tim, “Types of Corporate Social Responsibility to Be Aware of,” *Business Insights*, Harvard Business School, April 8, 2021: <https://online.hbs.edu/blog/post/types-of-corporate-social-responsibility>.

[3-H] Berle, Adolf A. and Gardiner C. Means, *The Modern Corporation and Private Property* (revised edition), 1932 [2017]; chapters I-IV.

Instructor Profile

John G. Matsusaka

Education

B.A. Economics, University of Washington
M.A., Ph.D. Economics, University of Chicago

Professional

Charles F. Sexton Chair in American Enterprise, 2009-
Professor of Finance and Business Economics, USC Marshall School, 1991-
Professor of Business and Law, USC Gould School of Law, 2004-
Professor of Political Science and International Relations, USC, 2005-
Executive Director, Initiative & Referendum Institute at USC, 2004-
Interim Vice Provost for Faculty Affairs, USC, 2019-2020
Vice Dean for Faculty and Academic Affairs, USC Marshall School, 2007-2013
Visiting Scholar, Booth School of Business, University of Chicago, 2017
John M. Olin Visiting Professor of Economics, GSB, University of Chicago, 2001
Visiting Associate in Economics, California Institute of Technology, 2000
National Fellow, Hoover Institution, Stanford University, 1994-1995

Other Professional

Consultant on corporate governance, Council of Economic Advisors, Executive Office of the President, Washington D.C., 2002

Books and Select Articles

Let the People Rule: How Direct Democracy Can Meet the Populist Challenge, 2021.

For the Many or the Few: The Initiative, Public Policy, and American Democracy, 2004.

"Is Direct Democracy Good or Bad for Corporations and Unions?," *Journal of Law and Economics*, 2023.

"Street-Level Responsiveness of City Governments in China, Germany, and the United States," with E. Köhler and Y. Wu, *Journal of Comparative Economics*, 2023.

"Opportunistic Proposals by Union Shareholders," with O. Ozbas and I. Yi, *Review of Financial Studies*, 2019.

"Popular Control of Public Policy: An Empirical Approach," *Quarterly Journal of Political Science*, 2010.

"When Are Outside Directors Effective?," with R. Duchin and O. Ozbas, *Journal of Financial Economics*, 2010.

"Direct Democracy and Public Employees," *American Economic Review*, 2009.

"From Families to Formal Contracts: An Approach to Development," with K. Kumar, *Journal of Development Economics*, 2009.

