
ECONOMIC ANALYSIS OF PUBLIC POLICY
API 102 Spring 2010
Kennedy School of Government
Harvard University

- Time and Place:** Regular Class M/W 8:40-10, L-230
Weekly Section F 10:10-11:30, L-332
- Instructor:** Professor Brigitte C. Madrian
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- Class web site:** The course web site will be located on the HKS intranet. Contact Jamie Georgia (jamie_georgia@hks.harvard.edu) with any access issues.
- Teaching fellow and course assistants:** Chris Carrigan, Teaching fellow
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- Prerequisites:** Microeconomics at the level of API-101 or equivalent. The course is intended for first-year students in the Kennedy School's MPP program, and is open to others only through permission of the instructor.
- Texts:** There is no required text for the course. Rather, extensive use will be made of other materials which will be available in the Course Materials Office (CMO, Belfer G-6), on reserve in the Kennedy School Library, or will be available for downloading from the course web site. Readings should be completed prior to class.

Overview: This course builds on API-101 to develop microeconomic tools of analysis for policy problems through various policy applications. The course has four broad themes: (1) What is the economic rationale for government intervention in the economy; (2) How to evaluate what types of intervention are most appropriate; (3) Who are the winners and losers from government intervention; and (4) Do the benefits of intervention exceed the costs? Areas of application include: the environment; legalizing marijuana; research and development; piracy and intellectual property; merger policy; financial disclosure; insurance provision; safety mandates; and regulation of credit, media, and employment markets.

Grading:

Assignments	30%
Mid-term exam	25%
Final exam	35%
Class participation	10%

Assignments: There will be eight assignments distributed throughout the semester (approximately one per week, with a couple of weeks off). Your highest 6 scores will count towards your grade.

Late assignments will not be accepted.

Mid-term exam: An in-class midterm will be given on March 10.

Final exam: The final exam is tentatively scheduled for Friday, May 7, 9-12 AM according to the Kennedy School final exam schedule. This is still subject to change.

API 102: ECONOMIC ANALYSIS OF PUBLIC POLICY
SCHEDULE OF COURSE MEETINGS

DATE	TOPIC
M January 25	The Role of Government in the Economy
W January 27	Information Failures I
M February 1	Information Failures II – Applications: Financial Markets
W February 3	Market Power I
M February 8	Market Power II – Applications: Merger Policy
W February 10	Public Goods I
M February 15	No Class – President’s Day
W February 17	Public Goods II – Applications: Intellectual Property
M February 22	Externalities I
W February 24	Externalities II – Applications: Gas Taxes and Fuel Economy Standards
M March 1	Do the Benefits of Intervention Exceed the Costs? Framework
W March 3	Do the Benefits of Intervention Exceed the Costs? Cost Effectiveness
M March 8	Do the Benefits of Intervention Exceed the Costs? Applications and Effectiveness
W March 10	Midterm
March 15 - 17	No Class – Spring Break
M March 22	The Role of Redistribution
W March 24	Financing Government: Tax Incidence
M March 29	Financing Government: Efficiency and Tax Reform
W March 31	Regulation of Labor Markets
M April 5	The Sub-Prime Mortgage Crisis
W April 7	Regulating Consumer Credit – Payday Loans
M April 12	Personal Bankruptcy
W April 14	Regulation of Media Markets
F May 7	Final Exam, 9am-noon, Location TBD

API 102: ECONOMIC ANALYSIS OF PUBLIC POLICY
SCHEDULE OF FRIDAY SECTIONS

DATE	TOPIC
JANUARY 29	NO SECTION
February 5	Section
February 12	Section
February 19	Section
February 26	Section
MARCH 5	MID-TERM REVIEW
MARCH 12	NO SECTION—SPRING BREAK
MARCH 19	NO SECTION—SPRING BREAK
March 26	Section
April 2	Section
April 9	Section
APRIL 16	NO SECTION
TBD	REVIEW SECTION FOR FINAL EXAM
MAY 7	FINAL EXAM, 9AM-12PM

READINGS

Monday, January 25

The Role of Government in the Economy

Joseph E. Stiglitz (2010). "Government Failure vs. Market Failure: Principles of Regulation," in Edward J. Balleisen and David A. Moss eds., Government and Markets: Toward a New Theory of Regulation, Cambridge University Press, 13-51.

Clifford Winston (2007). "Government Failure vs. Market Failure" (book excerpt), *Milken Institute Review*, First Quarter: 57-76.

Wednesday, January 27

Information Failures I

Timothy Haab and John Whitehead (2006). "Sink or Swim: Bailing Out the National Flood Insurance Program," *Milken Institute Review*, Second Quarter: 46-55.

Monday, February 1

Information Failures II—Applications: Financial Markets

Assignment #1 Due

Michael Greenstone, Paul Oyer and Annette Vissing-Jorgensen (2006). "The Value of Knowing," *Regulation*, Summer: 52-61.

Jeffrey Brown (2009). "Guaranteed Trouble: The Economic Effects of the Pension Benefit Guaranty Corporation.," *Journal of Economic Perspectives*, 22(1): 177-198.

Wednesday, February 3

Market Power I

Gregory Mankiw (2008). Principles of Economics, Fifth Edition, Chapter 15, "Monopoly," pp. 311-343.

Thomas Gale Moore (2002). "Moving Ahead," *Regulation*, 25(2): 6-13.

Barry C. Lynn (2006). "Breaking the Chain: The Antitrust Case Against Wal-Mart," *Harper's Magazine*, July: 29-36.

Emek Basker (2007). "The Causes and Consequences of Wal-Mart's Growth," *Journal of Economic Perspectives*, 21(3): 177-198.

Monday, February 8

Market Power II: Applications—Merger Policy

Assignment #2 Due

Dennis W. Carlton (2007). "Does Antitrust Need to be Modernized," *Journal of Economic Perspectives*, 21(3):155-76.

Jonathan Baker (2003). "The Case for Antitrust Enforcement," *Journal of Economic Perspectives*, 17(4): 27-50.

Robert W. Crandall and Clifford Winston (2003). "Does Antitrust Policy Improve Consumer Welfare? Assessing the Evidence," *Journal of Economic Perspectives*, 17(4): 3-26.

(on-line only) FTC Guide to the Antitrust Laws. <http://www.ftc.gov/bc/antitrust/index.shtm>

Robert Hahn, Robert Litan and Jesse Guman (2005). "Sold...but What's the Brokerage Fee?" *Milken Institute Review*, Fourth Quarter: 47-55.

Wednesday, February 10

Public Goods I

Jonathan Gruber (2007). Public Finance and Public Policy, Second Edition, Chapter 7, "Public Goods: Problems and Solutions," pp. 177-200.

Monday, February 15

NO CLASS—HOLIDAY

Wednesday, February 17

Public Goods II: Applications—Intellectual Property

Assignment #3 Due

Hal Varian (2005). "Copying and Copyright," *Journal of Economic Perspectives*, 19(2): 121-138.

Michael Kremer (2004). "Making Vaccines Pay." *Milken Institute Review*, First Quarter: 43-53.

Patricia Danzon (1998). "The Economics of Parallel Trade," *Pharmacoeconomics*, 13(3): 293-304.

Monday, February 22

Externalities I

Jonathan Gruber (2007). Public Finance and Public Policy, Second Edition, Chapter 5, "Externalities: Problems and Solutions," pp. 120-149.

Gilbert Metcalf (2009). "Market-Based Policy Options to Control U.S. Greenhouse Gas Emissions," *Journal of Economic Perspectives*, 23(2): 5-27.

James Hansen (2009). "Cap and Fade," *New York Times*, December 6, 2009.

Paul Krugman (2009). "Unhelpful Hansen," *New York Times*, December 7, 2009.

Wednesday, February 24

Externalities II—Applications: Gas Taxes and Fuel Economy Standards

Assignment #4 Due

John M. Broder (2009), "Obama to Toughen Rules on Emissions and Mileage," *New York Times*, May 19, 2009.

Paul R. Portney, Ian W. H. Parry, Howard K. Gruenspecht and Winston Harrington (2003), "Policy Watch: The Economics of Fuel Economy Standards," *Journal of Economic Perspectives*, 17(4): 203-217.

Ian W.H. Parry (2005), "The Uneasy Case for Gasoline Taxes," *Milken Institute Review*, Fourth Quarter 2005, 36-45.

Georgina Santos (2007), "Traffic Congestion Pricing, What Works and What Doesn't," *Milken Institute Review*, 44-53.

Monday, March 1

Do the Benefits of Intervention Exceed the Costs? Framework

Robert W. Hahn and Paul C. Tetlock (2008). "Has Economic Analysis Improved Regulatory Decisions?" *Journal of Economic Perspectives*, 22(1): 67-84.

Jonathan Gruber (2007). Public Finance and Public Policy, Second Edition, Chapter 8, "Cost/Benefit Analysis," pp. 201-222.

William Nordhaus (2007). "Critical Assumptions in the Stern Review on Climate Change," *Science*, July 25, 2007, pp. 201-202.

Wednesday, March 3

Do the Benefits of Intervention Exceed the Costs? Cost Effectiveness

Kevin Murphy and Robert Topel (2000). "Medical Research: What's It Worth?" *Milken Institute Review*, First Quarter: 23-30.

Kip Viscusi and Ted Gayer (2002). "Safety at Any Price?" *Regulation*, 25(3): 54-63.

McKinsey & Company (2007). "Reducing Greenhouse Gas Emissions: How Much at What Cost: Executive Summary."

Monday, March 8

Do the Benefits of Intervention Exceed the Costs? Applications and Extensions Assignment #5 Due

Jason E. Bordoff (2009). "Refuel Economy with Cash for Old Cars," The Brookings Institute.

Jeffrey D. Sachs (2009). "A Clunker of a Climate Policy," *Scientific American*, November 2009.

Jordan Rappaport and Chad Wilkerson (2001). "What Are the Benefits of Hosting a Major League Sports Franchise?" *Federal Reserve Bank of Kansas City Economic Review*, First Quarter: 55-86.

Wednesday, March 10

IN-CLASS MID-TERM EXAM

Monday March 15 & Wednesday March 17

SPRING BREAK—No Classes

Monday, March 22

The Role of Redistribution

Harvey Rosen and Ted Gayer (2008). Public Finance, Eight Edition, Chapter 12, “Income Redistribution: Conceptual Issues,” pp. 258-277.

Orlo Nichols and Michael Clingman et al (2007). “Money’s Worth Ratios Under the OASDI Program for Hypothetical Workers,” Social Security Administration, *Actuarial Note*, Number 2006.7, pp. 1-10.

Wednesday, March 24

Financing Government: Tax Incidence

Jonathan Gruber (2007). Public Finance and Public Policy, Second Edition, Chapter 19, “The Equity Implications of Taxation: Tax Incidence,” pp. 545-576.

Connie Mack and John Breaux, et al (2005). Simple, Fair, and pro-Growth: Proposals to Fix America’s Tax System, Report of the President’s Advisory Panel on Federal Tax Reform, President’s Advisory Panel on Tax Reform, November 2005. Chapter 3, “Tax Basics,” pp. 19-40.

Monday, March 29

Financing Government: Efficiency and Tax Reform

Jonathan Gruber (2007). Public Finance and Public Policy, Second Edition, Chapter 20, “Tax Inefficiencies and Their Implications for Optimal Taxation,” pp. 577-610.

Connie Mack and John Breaux, et al (2005). Simple, Fair, and pro-Growth: Proposals to Fix America’s Tax System, Report of the President’s Advisory Panel on Federal Tax Reform, Washington: President’s Advisory Panel on Tax Reform, November 2005. Chapter 5, “The Panel’s Recommendations,” pp. 59-106.

Wednesday, March 31

Regulation of Labor Markets

Assignment #6 Due

Donald Deere, Kevin M. Murphy and Finis Welch, “Sense and Nonsense on the Minimum Wage,” *Regulation*, 18(1): 47-56.

Thomas Holmes (2000). “The Location of Industry: Do States’ Policies Matter?” *Regulation*, 23(1): 47-50.

Paul Over and Scott Schaefer (2003). “The Unintended Consequences of the ’91 Civil Rights Act,” *Regulation*, 26(2): 42-47.

Thomas DeLeire (2000). “The Unintended Consequences of the Americans with Disabilities Act,” *Regulation*, 23(1): 21-24.

Monday, April 5

The Sub-Prime Mortgage Crisis

Christopher Mayer, Karen Pence and Shane Sherlund (2009). “The Rise in Mortgage Defaults,” *Journal of Economic Perspectives*, 23(1): 27-50.

Christopher Foote, Kristopher Gerardi, Lorenz Goette and Paul Willen (2008). "Subprime Facts: What (We Think) We Know about the Subprime Crisis and What We Don't," Federal Reserve Bank of Boston Working Paper, pp. 1-57.

Dwight Jaffee and John Quigley (2008). "Mortgage Guarantee Programs and the Subprime Crisis," *California Management Review*, 51(1): 117-143.

Wednesday, April 7

Regulating Consumer Credit—Payday Loans

Assignment #7 Due

John Campbell, Howell Jackson, Brigitte Madrian and Peter Tufano (2010). "The Regulation of Consumer Financial Products," Working Paper.

Kim Christensen (2008). "More in Middle Class Using Payday Lenders," *Los Angeles Times*, December 24, p. A1.

Tim Miller (2008). "Ban Payday Loans? Big Mistake" *Christian Science Monitor*, May 6, p. 1.

Monday, April 12

Personal Bankruptcy

Associated Press (2009). "Consumer Bankruptcies Surge 33% in 2008," *Los Angeles Times*, January 6, p. 1.

Michelle White (2008). "Bankruptcy: Past Puzzles, Recent Reforms, and the Mortgage Crisis," NBER Working Paper No. 14549, pp. 1-23.

Michelle White (2007). "Bankruptcy Reform and Credit Cards," *Journal of Economic Perspectives*, 21(4): 175-199.

Wednesday, April 14

Regulation of Media Markets

Assignment #8 Due

Les Picker (2006). "Media Bias and Voting," *NBER Digest*, October.

Joel Waldfogel (2007). "Should We Regulate Media Ownership?" in Philip M. Napoli, Media Diversity and Localism: Meaning and Metrics, pp. 3-8.

Christopher S. Yoo (2005). "Architectural Censorship and the FCC," *Regulation*, 28(1): 22-29.

Friday, May 7

FINAL EXAM, 9 AM-12 PM (Location TBD)