Course Objectives

This course applies both normative (economic) and positive (political) theories of public policy to specific policy areas, including social as well as regulatory policies, and to current topics such as national security and terrorism, and secondary credit markets (i.e., the mortgage and credit crash). Normative economic theories focus on how efficient markets ought to work, and on how collective choice (policy) ought to respond to correct the market failures. Positive theories of politics outline how rational politicians who seek to obtain or remain in office are likely to respond to market failure and normative policy options in the “real” world. The first part of the course briefly reviews market failure, but from the perspective of specific policy areas (e.g., what, if any, market failure justifies Amtrak?). It begins with the (specific) policy to see what the (general) logic applies, rather than, as in many courses, start with the (general) logic, which is then applied to the (specific) policy. The second part of the course examines public choice; that is, we use the logic of economics to examine how rational politicians, seeking to maintain or gain office, respond to voters (only in a democracy), interest groups (or elites), legislatures, but dependent on bureaucracies for policy implementation, make policy choices that are rational for them, and that may also be socially efficient (or not). The third, main, part of the course applies theories of market and government/political failure (or success) to specific topics. Topics covered in designated class sessions include issues in education (from day care to university); cash and inkind transfers to the poor; health care; social security; crime and illegal drugs (and terrorism); environmental regulation and natural resources; risk, safety and (maybe) advertising regulation; and other policy issues of specific interest to those in the class. For each policy issue, class discussion will generally adhere to the following outline:

A. Current policy
   1) What is the current policy? (May be general; e.g., higher education; or specific; e.g., Pell grants). (Current policy may be "do nothing.")

B. Market failure/success: Theory 1
   1) In the absence of government, what, if any, market failure(s) would characterize the supply of and/or the demand for the good or service?
   2) What, if any, would be a theoretically preferred (if not optimal) policy response? (i.e., Pareto improving if not Pareto optimal)

C. Non-market (government) failure/success: Theory 2
   1) Given the presence (or absence) of government, what, if any, is/are the type(s) of non-market failure (or success) that characterize current policy?
   2) What political factors are likely to account for disparity (or, possibly, conformity) between the current and a theoretically more optimal policy?
In your answer, use the readings and the class discussions and notes about the characteristics of voters/citizens, interest groups/elites/social movements, legislators, and unelected officials (especially in executive agencies) in terms of their likely preferences and the institutional "rules" that affect their behavior and preferences. (You may consider policies in areas outside the U.S., and in non-democracies.)

D. Pareto improving, politically possible options: an empty set? Consider the options, and discuss them (or it). If there are no options, discuss why some popular options (e.g., externality taxes) are unlikely to be effective in your example, or are likely to be politically infeasible in your example.

With the exception of the introductory sessions on market and non-market (government) failure/success, each class will be structured around a specific policy area using the outline set forth above. The course requires two short papers on two of the policy issues that we discuss. Writing these papers requires you to apply information from class discussions and from the readings. It is therefore critical that everyone not only come to class, but also be prepared to discuss--and challenge--the readings (and the instructor). This will also make it easier for you to write the 2 short policy papers. Be sure to use the outline above to write these short papers. There is also a term paper due at the end of the class; for many of you, the term paper will be a longer version of one of these short policy papers, or a longer analysis of a policy topic of your choice.

Learning outcomes:

1) Ability to define market and government/political failure(s). Measures: 1st two short papers, term paper.

2) Ability to apply the logic of market and government/political failure (and its absence) to specific policies. Measure: 2nd of two short papers, term paper.

3) Ability to start with a specific policy and determine what market and government/political failure(s) can account for the policy market failure, or its success. Measures: short papers, term paper.

4) Ability to possibly improve current policy by suggesting options that, while not Pareto optimal, may be both Pareto improving and politically feasible. Measures: term paper.

Course requirements (Note: you can hand in hard copies in class or e-mail them to me.)

Short papers 1, 2. Consider two particular policy issues (or non-policy, if there is no public action) of particular interest to you. For each issue, prepare a short paper identifying market failure that may justify the policy, or explain why no market failure exists. Then explain the logically optimal policy response (i.e. Discuss topics A and B in outline above). (15% each) Use diagrams to illustrate your argument.

(3pp double spaced) USE AUID, NO NAME.

Due: Feb. 7
Feb. 28

Short papers 3, 4. Prepare 2 short exercises identifying market failure, optimal policy response, government failure, and possible Pareto improving policy (which may be the current policy) (i.e., Your short essay should cover Topics A – D in outline above). (20% each). (Max. 3 pages double space each; make sure you cover topics A-D in the outline above. Use page 4 for
diagrams, if necessary. USE AUID, NO NAME. The first paper MUST be on a specific policy concerning education. The second paper offers a choice. One option is to write a short paper on one topic within the policy areas of welfare, health care or social security; the second option is to write short paper on one topic pertaining to regulating risk/safety, the environment or crime. (Note that these options have different due dates. Pick ONE option.)

- Paper 1 due Feb. 6
- Paper 2 due Feb. 27
- Paper 3 due Mar 20 (on education)
- Paper 4a on policy pertaining to welfare/redistribution, health care OR social security, due April 17
- OR
- Paper 4b on policy pertaining to regulating risk/safety, the environment OR crime due May 1.

5. One term paper (25%) (10 - 15 pages) (due May 1)
   Longer version of 2nd short paper, OR on a policy topic of your choice.
   Same outline as 2nd short papers.

   Class presentation of term paper (5%) (due May 2)
   Class participation (fudge factor)

In addition, your paper may conclude with a brief original discussion or personal opinion on the issue that pertains to the policy topic, the readings, the current news, or the class discussion. You may also voice an opinion that is relevant but is not raised in the readings, the discussion, or the news. Given the page limit in the 4 short papers, each section must be succinct, organized and clear, but as thorough as possible. It probably will help to start with an outline of each section. Adhere to that outline in the paper that you hand in. Please read and edit your paper before you hand it in. Be advised that it takes longer to write short papers than long papers. Ruthless editing and rewriting is essential. Also: Read OWED TO THE SPELL CHEQUER. The poem appears near the end of this syllabus (p 10). I will collect 1 cent for every misused spelling! (Except the transactions costs are too high…)

Some examples of topics include for any of the papers include: vouchers in education; education choice; reducing school size; reducing class size in public schools; "no child left behind" policy; food stamps; EITC; minimum wage; work requirements to get welfare; welfare caps; privatizing social security; public provision of social security; public subsidy for Medicare prescription drugs; tax deduction for employer-provided health insurance; raising social security/Medicare age of eligibility; tax deduction for home mortgage; housing vouchers; raising taxes on cigarettes or booze; banning/regulating handguns; easing (or raising) federal clean air standards; easing (or raising) federal clean air regs or raising/lowering air/water pollution standards; taxing gasoline and/or automobile mileage; preserving wildlife refuges (or historic places); preserving endangered species; building highways to reduce traffic congestion; increasing airline safety/security (screening passengers, scanning luggage, etc.); raising fuel efficiency standards; patients' "bill of rights"; banning (certain) drugs; gun control; mandatory minimum sentences for certain crimes; the death penalty; foreign aid; policies related to terrorism or national defense; mandating/subsidizing/pricing health care insurance; etc.

The term paper:
Each student must discuss the term paper topic with the instructor by March 7, before the Spring break.

A note on outside readings:
Besides the readings listed on this syllabus, additional readings will be a necessity for many of you to complete the term papers. Consulting additional readings is an option (not a requirement) for the short papers. Please minimize reliance on ad hoc searches of the web for these additional sources. There is a lot of “stuff” on the web, but most of it is not refereed by professional or peer review. Materials in books and journals (on-line or not) that are held by university libraries are usually refereed, and are more likely to be theoretically coherent and empirically valid. By all means use the web to search for these sources; and use the web for electronic versions of journals held by libraries. Materials published by reputable think tanks are also refereed, and are usually of high quality. (Urban Institute, Brookings, American Enterprise Institute, Heritage Foundation, and Cato span the ideological spectrum and are of equally high quality, probably because of competition in the think tank market.) Google-scholar is another good place to begin a search. Before you start searching for information, see me; I have a drawer and files full of references on a lot of policy topics, and I (usually) point you in the right direction.

Of the many journals in economics and political science, this is a partial list of those that are likely to be useful:


**Journals specific to particular policy areas:** New England Journal of Medicine, Journal of Environmental Economics and Management, Economics of Education Rev., etc.

**Reading for purchase in the bookstore or elsewhere**

**Recommended readings:** (other editions are also good; each addition has a slightly different selection of policy issues)
Stiglitz, *Economics of the Public Sector*, 3rd ed.
Miller, Benjamin and North, *Economics of Public Issues* (16th ed.)

**Required reading from books available on Blackboard:**
Shefrin, *Markets and Majorities*
Walters, *Enterprise, Government and The Public*

Course schedule, reading assignments, and dates to remember:
(Note that readings do not need to be completed until the end of each 2 or 3 week sub-session.)

Jan. 16-Feb. 20 **Part I: Market failure and Government Failure**
Jan. 16: Discuss alternative date(s) for Feb. 27 class
Jan. 16, 23: Review of market failure and optimal policy design:
applications of the theory to specific policy issues

Reading:
Walters, Enterprise, Government and The Public, ch. 2-3 (BB)
Gruber, PF & PP, ch. 1-3, 5-7, 9.1, 10
Shefrin, M&M, ch. 1 (BB)
Rao and Reiley, “The Economics of SPAM,” JEP Summer 2012 (BB)

Optional:
Weimer and Vining, Policy Analysis, 2005, ch. 4, 5, 6, 10 (recommended)
Stephens, Economics of Collective Choice, ch. 2, 3, 4 (recommended)
Stiglitz, Economics of the Public Sector, 2000, ch. 1-4 (recommended)
Edgmand, Econ and Contemp Issues, ch. 1, 2, 3, 5 (recommended)

Jan. 30 Introduction to non-market failure
Reminder: Short paper 1; due Feb. 6

Reading:
Walters, Enterprise, Government and The Public, ch. 4 (BB)
Gruber, PF & PP, ch. 9.2-9.5 (skim), 10 (again)
Bardach, A Practical Guide for Policy Analysis, Appendix A, "Things Governments Do" (BB)
Weimer and Vining, Policy Analysis, 2005, ch. 10 (BB)
Winston, GF versus MF, ch. 1-8 (BB)

Optional:
Frame and White, “Fussing and Fuming over Fannie and Freddie: How Much Smoke, How Much Fire?” J. Econ. Perspectives 19 (2), Spring 2005 (Note the date of the publication!).
Stephens, Economics of Collective Choice, ch. 1
Weimer and Vining, Policy Analysis, 2005, ch. 8,9
Stiglitz, Economics of the Public Sector, 2000 ch. 6

Feb. 6-Feb. 27 **Part II: Reasons for government/non-market failure or success**

Feb. 6, 13: Voting and interest groups
(Short paper 1 due on Feb. 6)

Reading:
Gruber, PF & PP, Ch. 9.2-9.3 (again)
Optional:
Stiglitz, EPS 2000, ch. 7, “Public Choice”
Stevens, The Economics of Collective Choice, ch. 6, 7 (thru 7.72)

NOTE: I need to cancel/move the Feb. 27 class. We will discuss specific dates at the beginning of the semester.
Feb. 20, **Feb. 27**: Legislatures and bureaucracies
   Feb. 20: Discuss Short papers 1 in class (relate to legislatures)
   Feb. 20: Reminder Short paper 2 due next week
   Feb. 27: Short paper 2 due

Reading:
Gruber, PF & PP, ch. 9.4 (again)

Optional:
Stevens, The Economics of Collective Choice, ch. 8, 9, 10
Stiglitz, EPS.2000: ch. 8 “Public Production and Bureaucracy” (recommended)
(Note: this began life as a class paper in 604+607; shorter version appears in Regulation Magazine, published by Cato)

Mar. 6 - Apr. 24: **Part III: Specific policy applications:** Market failure and/or Government failure?

Mar. 7 See me before this date to begin discussion of your term paper. If necessary, I will provide an individually tailored reading list to guide your research. Many useful articles on a wide variety of policy topics, both theoretical/analytical and empirical, can be found in the journals listed on page 4 of this syllabus.

Mar. 6 Education (including higher education and day care)

Reading:
Henry Levin, “Education as a Public and Private Good,” JPAM 6(4), Summer ‘87 (BB Course Documents)
Gruber, PF&PP, ch. 11
Heckman et al., PreSchool Effects
Acemoglu et al. Wage Polarization and Education (J-shaped wage distribution)

Optional:
Stiglitz, EPS, 2000: ch. 16, “Education” (recommended)
Edgmand et al., Economics of Contemp Issues, ch. 9, 10 (recommended)

Mar. 13 NO CLASS: Spring break
Reminder: Short paper 3 on education due Mar. 20

Mar. 20 Inequality and Market Failure: Moral redistribution or moral hazard: Income redistribution
Welfare (cash + in-kind transfers to the poor), work, and decentralized finance:
What do we know about welfare reform? Should states run the show?

Short paper 3 on education due

Reading:
Gruber, PF&PP, ch. 10 (again), 14, 17
Besharov and Call, “Income Transfers Alone Won’t Eradicate Poverty,” Policy Studies Jnl,
2009 37(4)
Plotnick, “Measuring Poverty and Assessing the Role of Income Transfers in Contemporary
Antipoverty Policy: Comments on Besharov and Call. PSI 2009 37 (4)
Bonica et al., “Why Hasn’t Democracy Slowed Rising Inequality?” Jnl. Econ. Perspectives
Choose one item from Inequality and Neg. Exts_/No #1-3 in Blackboard
Read: Inequality and Neg. Exts. Yes in Blackboard
Read: SNAP Reduces Inequality
Read: Does Democracy Reduce Inequality? It depends…

Optional:
Iversen and Soskice, “Electoral Institutions and the Politics of
Coalitions: Why Some Democracies Redistribute More than Others.”
APSR, May 2006. (BB)
Edgmand et al., Economics of Contemp Issues, ch. 12, 14
Stiglitz, Economics of the Public Sector,2000
ch. 5, “Welfare Economics: Efficiency vs Equity”
ch. 15, “Welfare Programs and Redistribution of Income”

Mar. 27 Social (In)Security

Readings:
Gruber, PF&PP, ch. 12, 13
Schefrin, Markets and Majorities, ch. 3 (BB)
Ferrara, Social Security, ch. V (BB)

Optional:
Edgmand et al., Economics of Contemp Issues, ch. 11

Apr3, Apr. 10 Health Care and Government: Pathology or Palliative?
Stoltzer, *Emergency Room* (BB, by permission of the author) (Why did I assign this?)
Gruber, *PF&PP*, ch. 15, 1688
Shefrin, *M&M*, ch 2 (BB)

Optional:
*Regulation Magazine*, Fall 1992 (in periodical stacks)(recommended)
Stiglitz, *EPS*, 2000: ch. 12 “Health Care” (recommended)
Edgmand et al., *Economics of Contemp Issues*, ch. 7 (recommended)

Apr. 17  Short paper 4a on redistribution, health or social security due.
Apr. 17  Pollution, Politics, and Public Policy

Shefrin, *M&M*, ch. 4 (BB)
Gruber, *PF&PP*, ch. 5, 6.1, 6.2
Walters, *Enterprise, Government and the Public*, ch. 16 (BB)

Optional:
Portney et al., “The Economics of Fuel Economy Standards,” *J. Econ. Perspectives* 17 (4), Fall 2003 (in JSTOR)
Edgmand et al., *Economics of Contemp Issues*, ch. 6

Apr. 24  Regulating Risk: Health, Safety and Small Business
(first hour)
Shefrin, *M&M*, ch. 5 (BB E-Reserves)
Gruber, *PF&PP*, ch. 6.3-6.5
Hudgins, “Memo to the Mafia: Smuggle Cigarettes,”
*Regulation Magazine*, Spring 1998 (BB)

Optional:
Walters, *Enterprise, Government and the Public*, pp. 510-522;
Ch. 11: 304-320; Ch. 17: 522-548 (in BB E-Reserves)
*Regulation Magazine*, Fall 1991

Apr. 24  Crime and Illegal Drugs
(second hour)

Optional:
Lukesetich and White, *Crime and Public Policy*, ch. 3-6, 9, 10

May 1: Short paper 4b on environment, risk or crime due
May 1: Class presentations of term paper
A brief note on my grading policy:  A is reserved for truly exceptional work; A- is close to outstanding work, but not quite there.  B+ represents good, sound work, while B is adequate.  Grades of B- and below mean that some portion of the basic, core concepts are missing or poorly understood.  The best work is accurate, clear, organized, and creative.  Clarity includes a well-organized paper or essay, paragraphs that correspond to separate topics and subtopics, and sentences with subject, verb, and object, with appropriate use of adjectives and adverbs.  Correct your spelling.  Remember, the spell-checker cannot distinguish between their, there, and they’re, or between discrete and discreet.  Reread and edit your work (twice!) before you hand it in.  Please read “Owed to the Selling Chequer”: it appears just below in the syllabus.  Your work must be your own and must conform to AU standards of academic integrity.

Late papers will not be accepted, unless you tell me beforehand why you will be late and when you plan to hand in the work.  Work that is more than one week late will not be accepted at all.  Violations of the university’s Academic Integrity Code will result in serious sanctions, a grade of F in the course, or suspension from the university.  Please read the sections set forth below on Reading and Writing Standards and the Academic Integrity Code carefully.

Reading and Writing Standards

Misuse of words drives me nuts.  The spelling checker cannot distinguish between “there” and “their”, but a reasonably intelligent human, especially those in the MPP program at AU, should be capable of making distinctions such as these.  Read the following, and behave accordingly.  If I see excessive violations, I will start charging for each instance of this negative externality.
OWED TO THE SELLING CHEQUER
(By An on knee muss)

I have a spelling chequer
It came with my pea see
It plainly marks for my revue
Miss steaks eye cannot sea.

Eye strike a quay and right a word
And weight for it two say
Weather I am wrong or write—
It shows me strait a way.

As soon as a mist ache is maid
It nose be fore two late
And I can put the error rite
It’s rarely, rarely grate.

I’ve run this poem threw it
I’m shore yore pleased to no
It’s letter perfect in it’s weight
My chequer tolled me sew.
**Academic Integrity Code:** I expect that students are cognizant of the contents of the Academic Integrity Code. I regard violations of the code seriously and will immediately refer the matter to Dean Meg Weekes, should such violations occur. Please see me if you have any questions about the academic violations described in the code either in general or as they apply to particular requirements of this course.

Standards of academic conduct are set forth in the University's Academic Integrity Code, [http://www.american.edu/academics/integrity/code01.htm](http://www.american.edu/academics/integrity/code01.htm). All examinations, tests, written papers, and other assignments are required to be completed according to the standards set forth in this code.

All work must be entirely your own. When you quote from others’ work, you must give full credit by footnote or endnote. Failure to use quotation marks when quoting, failure to give full credit when paraphrasing, use of others’ ideas or work products, submission of work prepared through impermissible collaboration, and also submission of work prepared by you for another class are all examples of violations of the academic integrity code and will result in sanctions. (Your work in this class may be related to your work in another class, but the work you submit for this class should not duplicate that submitted for another class. If you anticipate an exception, do not hesitate to ask.)

By registering in this class, you have acknowledged your awareness of the Academic Integrity Code, and you are obliged to become familiar with your rights and responsibilities as defined by the Code. Violations of the Academic Integrity Code will not be treated lightly, and disciplinary action will be taken should such violations occur. Please see me if you have any questions about the academic violations described in the Code in general or as they relate to particular requirements for this course. Failure to comply with the requirements of the Academic Integrity Code can result in failure in the course, as well as more serious academic sanctions.

**Additional Support Services:** If you experience difficulty in this course for any reason, please do not hesitate to contact me. In addition to the resources of the dept, a wide variety of services are available to help you in your efforts to meet the requirements of the course.

- **Academic Support Center** (x3360, MGC 243): offers study skills workshops, individual instruction, tutor referrals, and services for students with learning disabilities. Writing support is available in the ASC Writing Lab or in the Writing Center, Battelle 228.

- **Counseling Center** (x3500, MGC 214): offers counseling and consultations regarding personal concerns, self-help information, and connections to off-campus mental health resources.

- **Disability Support Services** (x3315, MGC 206): offers technical and practical support and assistance with accommodations for students with physical, medical or psychological disabilities.
If you qualify for accommodations due to a disability, please notify me in a timely manner with a letter from the ASC or DSS so that we can make arrangements to address your needs.

**Emergency Preparedness:** In the event of a declared pandemic (influenza or other communicable disease), American University will implement a plan for meeting the needs of all members of the university community. Should the university be required to close for a period of time, we are committed to ensuring that all aspects of our educational programs will be delivered to our students. These may include altering and extending the duration of the traditional term schedule to complete essential instruction in the traditional format and/or use of distance instructional methods. Specific strategies will vary from class to class, depending on the format of the course and the timing of the emergency. Faculty will communicate class-specific information to students via AU e-mail and Blackboard, while students must inform their faculty immediately of any absence due to illness. Students are responsible for checking their AU e-mail regularly and keeping themselves informed of emergencies. In the event of a declared pandemic or other emergency, students should refer to the AU Web site (www.prepared.american.edu) and the AU information line at (202) 885-1100 for general university-wide information, as well as contact their faculty and/or respective dean’s office for course and school/college-specific information.