Course description

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
   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
   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 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.)

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.

Most issues of policy require not only theoretical and analytical skills, some of which this course features; they also require empirical skills. First, it is important to judge whether empirical evidence is credible; second, it is important to relate the empirical evidence to a theoretically expected outcome. Hence, I ask you in this course to apply the tools of quantitative analysis learned in other classes to the task of policy analysis. To this end, there will also be 2 short exercises requiring you to identify market/govt failures and to use empirical tools to analyze the effectiveness of actual policy responses. You will hand these in for grading, but we will also discuss the methodological and substantive policy issues raised by these exercises as part of the class.

Course requirements (Note: you can hand in hard copies in class or e-copies, by email)

Two short assigned exercises identifying market/govt failure and effectiveness of policy response. (15% each) Problem will be handed out one week before the due date. (Problem will require both economic and statistical analysis)
(3pp double spaced) USE AUID, NO NAME.
Due: Feb. 9
      Mar. 1

Two short papers (20% each) (Max. 3 pages double space each; use outline above; use page 4 for diagrams, if necessary) USE AUID, NO NAME.
  Paper 1 on education due Mar. 22
  Paper 2a on welfare, health care or social security, due April 19
  OR
  Paper 2b on regulating risk/safety, the environment or crime due May 3.

One term paper (25%) (10 - 15 pages) (due May 3)
  Longer version of a short paper, OR on a topic of your choice.
  Same outline as short papers. (See details below)

Class presentation of term paper (5%) (due May 3)

Class participation (fudge factor)

The two short econ/stats assignments will be self-explanatory. They introduce a policy, and ask you to identify likely market and government failures that justify or question the efficiency of the policy, an exercise in policy analysis required by OMB for all agencies whose regulations it examines. It will also ask you to use the skills from MOPS and/or Program Evaluation to explain the results from an empirical study of policy impact, and to assess the credibility of the implied causal claim. The statistics part of the assignment will relate to the substantive policy question in the economics part of the assignment. (If you are currently enrolled in MOPS II, please indicate that on your assignment; I will adjust my grade for the quant part of the assignment accordingly.)
The two short papers focus on understanding the readings and the class discussions. Each paper should follow the outline above (A., B. and C.), applying the logic of policy analysis (current policy, market failure/success, govt failure/success) based on the assigned readings, the class handouts and discussion and, optionally, other relevant information that you have available and wish to introduce. In addition, each short paper may conclude with a brief original discussion or personal opinion on the issue that pertains to 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 short papers, each section must be succinct, well-organized and clear, but as thorough as possible. It probably will help to start with an outline of your most important points, focusing on current policy, market failure (reasons for market failure/absence of failure), non-market failure, reasons for non-market failure/absence of non-market failure, and your opinion. 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 at the end of this syllabus. I will collect 1 cent for every misused spelling!

The short papers may focus on a subset of the general policy issue that the term paper is to address (see below). Some examples of topics for a short paper include: vouchers in education; education choice; reducing school size; reducing class size in public schools; "no child left behind" policy; EITC; minimum wage; work requirements to get welfare; welfare caps; privatizing social security; public provision of social security; public subsidy for prescription drugs; tax deductability of employer-provided health insurance; tax deduction for home mortgage; housing vouchers; raising taxes on cigarettes or booze; banning/regulating handguns; easing federal clean air standards; easing compliance with federal clean air regs; raising 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; 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:
There are two options for the term paper. One is a longer, more nuanced version of a short, analytical, paper, but it is based on a topic of your choice. The policy area of the term paper will, in most cases, be more narrow than many of the general policy areas that we discuss in class; you may also choose a topic that we do not discuss (e.g., regulation/deregulation in trucking, banking, railroads, utilities, auctioning bandwidth, telephony; the arts; sports; national defense; foreign aid; supporting AIDS treatment (not prevention, directly) in Africa; NAFTA and other foreign trade policies; immigration (legal or illegal).

Second, as an alternative to a purely analytical paper, you may chose to write an empirical policy paper, revising an empirical paper you wrote for PUAD604 (or some other class) and adding or updating the section on theory/previous research. The empirical term paper should evaluate the impact or effectiveness of a public policy or policy change, basing the model on theoretical expectations and previous research, and adding your own empirical research. Alternatively, you may wish to examine empirically why different political entities make different policy choices, or implement them differently. Again, if you choose to write an empirical paper, it can be a revision or addition to a paper on policy, implementation, management, or policy choice that you have written in other classes.

Each student must discuss the term paper topic with the instructor by March 9, 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 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.) Also, if applicable, use the web to access data files collected by government agencies, universities and reputable think tanks (especially Urban) for use in statistical analyses. 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.

**Readings for purchase in the bookstore or elsewhere:**

- Sharp, Register and Grimes, Economics of Social Issues (19th ed.)
- Miller, Benjamin and North, Economics of Public Issues (16th ed.)
- Gruber, Public Finance and Public Policy (Worth, 2007).
- Winston, Government Failure versus Market Failure (Brookings, 2006)

**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.

**Required reading from books available on Blackboard:**

- Shefrin, Markets and Majorities (out of print; in Blackboard e-reserves)
- Walters, Enterprise, Government and The Public (chapters in BB e-reserves)

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.)

(Note also that your edition of Sharp et al. and Miller et al. may not correspond to those listed below; use your head: if the topic is health care, find the health care chapters; if you are uncertain, ask me.)
Jan. 19-Feb. 9: **Part I: Market failure and Government Failure**

Jan. 19, 26: Review of market failure and optimal policy design: applications of the theory to specific policy issues

- Walters, *Enterprise, Government and The Public*, ch. 2-3 (BB E-Reserves)
- Shefrin, *M&M*, ch. 1 (BB E-Reserves)
- Gruber, *PF & PP*, ch. 1-3, 5-7, 9, 10
- Sharp et al., ch 4, 8, 9, 11, 12

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)

Feb. 2: Introduction to non-market failure
Hand out Exercise 1; due Feb. 9

- Miller, *Econ of Public Issues*, ch. 4, 8, 9, 19, 31
- Walters, *Enterprise, Government and The Public*, ch. 4 (BB E-Reserves)
- Gruber, *PF & PP*, ch. 9, 10 (again)
- Sharp et al., *Econ of Social Issues*, ch. 2, 3, 10
- Winston, *GF versus MF*, ch. 1-8

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!). (BB Course Documents)
- Stephens, *Economics of Collective Choice*, ch. 1 (recommended)
- Weimer and Vining, *Policy Analysis*, 2005, ch. 8,9 (recommended)
- Stiglitz, *Economics of the Public Sector*, 2000 ch. 6, “Public goods and publically provided private goods”

Feb. 9-Mar. 1 **Part II: Reasons for government/non-market failure or success**

Feb. 9-16: Voting and interest groups
(Exercise 1 due on Feb. 9)

- Miller, *Econ of Public Issues*, ch. 2, Intro to Part 5, ch. 23, 31
- Shefrin, *M&M*, ch. 6 (on free trade) (BB E-Reserves)
- Gruber, *PF & PP*, Ch. 9.2-9.3 (again)

Optional:
Jacobs and Shapiro, “Studying Substantive Democracy,” PS: Political Science and Politics 27 (1), March 1994: 9-17 (BB Course Documents) (JSTOR)

Stiglitz, EPS 2000, ch. 7, “Public Choice” (recommended)


Stevens, The Economics of Collective Choice, ch. 6, 7 (thru 7.72) (recommended)

Feb. 23, Mar. 1:  Legislatures and bureaucracies
   Feb. 23:  Discuss Exercise 1 in class
   Feb. 23:  Hand out Exercise 2
   Mar. 1:  Exercise 2 due

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

Optional:
Stevens, The Economics of Collective Choice, ch. 8, 9, 10 (recommended)
Stiglitz, EPS 2000: ch. 8 “Public Production and Bureaucracy” (recommended)

Mar. 8 - Apr. 26:  **Part III:  Specific policy applications:  Market failure and/or Government failure?**

Mar. 8:  Education (including higher education and day care)

   Henry Levin, “Education as a Public and Private Good,” JPAM 6(4), Summer ‘87 (BB Course Documents)
   Gruber, PF&PP, ch. 11
   Miller et al., Economics of Public Issues, ch. 17, 18
   Sharp et al., Economics of Social Issues, ch. 6

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

Mar. 9  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 3 of this syllabus.

Mar. 15 Spring break

Mar. 22  Paper on education due
Mar. 22  Moral redistribution or moral hazard:  welfare (cash/in-kind transfers to the poor), work, and decentralized finance
What do we know about welfare reform? Should states run the show?

Gruber, PF&PP, ch. 10, 14, 17
Miller et al., Economics of Public Issues, ch. 9 - 14
Sharp et al., Economics of Social Issues, ch. 1, 7

Optional:
Edgmand et al., Economics of Contemp Issues, ch. 12, 14 (recommended)
Stiglitz, Economics of the Public Sector 2000 (recommended)
   ch. 5, “Welfare Economics: Efficiency vs Equity”
   ch. 15, “Welfare Programs and Redistribution of Income”

Mar. 29 Social (In)Security

Miller, et al., Economics of Public Issues, ch. 25
Gruber, PF&PP, ch. 12, 13
Schefrin, Markets and Majorities, ch. 3 (BB E-Reserves)
Ferrara, Social Security, ch. V (BB E-Reserves)
Sharp et al., Economics of Social Issues, ch. 15 (section on social security, pp. 431-443)

Optional:
Edgmand et al., Economics of Contemp Issues, ch. 11 (recommended)
Stiglitz, EPS, 2000: Ch. 14, “Social insurance” (recommended)

Apr5, Apr. 7 Health Care and Government: Pathology or Palliative?
NOTE THE DATE CHANGE: There will be no class on April 12;
There will be TWO sessions on Sat. 4/7, one at 10am, the other at 2pm.
Pick one to attend.

Gruber, PF&PP, ch. 15, 16
Miller et al., Economics of Public Issues, ch. 6
Shefrin, M&M, ch 2 (BB E-Reserves)
Sharp et al., Economics of Social Issues, ch. 15 (section on medicare, pp. 445-454)

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. 19 Paper on redistribution, health or social security due.
Apr. 19 Pollution, Politics, and Public Policy

Shefrin, M&M, ch. 4 (BB E-Reserves)
Gruber, PF&PP, ch. 5, 6.1, 6.2
Walters, Enterprise, Government and the Public, ch. 16 (BB E-Reserves)
Miller et al., Economics of Public Issues, ch. 2, 7, 8, 26-29
Sharp et al. Economics of Social Issues, ch. 4
Van Doren, “Letting Environmentalists Preferences Count,” Regulation
Optional:
Portney et al., “The Economics of Fuel Economy Standards,” J. Econ. Perspectives 17 (4), Fall 2003 (in JSTOR) (recommended)
Stiglitz, EPS, 2000: ch. 9, “Externalities and the Environment” (recommended)
Edgmand et al., Economics of Contemp Issues, ch. 6 (recommended)

Apr. 26 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
Miller et al., Economics of Public Issues, ch. 1, 3, 20, 21, 22
Hudgins, “Memo to the Mafia: Smuggle Cigarettes,” Regulation Magazine, Spring 1998 (BB Course Documents)

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

Apr. 26 Crime and Illegal Drugs
(second hour)
Miller et al., Economics of Public Issues, ch. 5, 24
Soss, Langbein and Metelko, “Why Do White Americans Support the Death Penalty?” (J. of Politics, 2003) (BB Course Documents)(also JSTOR)
Edgmand, Economics and Contemporary Issues, ch. 8
Sharp et al., Economics of Social Issues, ch. 5

Optional:
Luksetic and White, Crime and Public Policy, ch. 3-6, 9, 10 (recommended)

May 3: Paper on environment, risk or crime due
May 3: 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, 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 before-hand 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. 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

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.

Emergency Preparedness

*Draft statement on the pandemic to be communicated to faculty and included in course syllabi*

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](http://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.
Academic Support

If you experience difficulty in this course for any reason, please do not hesitate to consult me. In addition to the resources of the department, a wide range of services is available at the university to support you in your efforts to be successful in this course.

Academic Support Center (202-885-3360, MGC 243, asc@american.edu, www.American.edu/ocl/asc) offers study skills materials and workshops, individual academic assistance, tutor referrals, and services for students with learning disabilities and ADHD. Writing support is available in the Academic Support Center (ASC) Writing Lab or in the Writing Center, Battelle-Tompkins 228, 885-2991. Please use these services. We can all use help with our writing; editors can teach you how to write better.