
**SCHOOL OF PUBLIC POLICY
UNIVERSITY OF MARYLAND**

**PUAF 640-RB01: Microeconomics and Policy Analysis
Fall 2005**

Instructor: Professor Carol Graham
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Lectures: Thursdays, 5:30-8:00 pm @ Brookings Institution
Discussions: To be determined

Course Description:

A large number of interactions among people, institutions and the environment are mitigated through the market place. Transactions on labor markets determine, for example, who works for whom and at what wage or salary level. Interactions among firms involve decisions about purchases and sales of raw materials and intermediate products. Use of materials, energy, and emissions of waste products are increasingly governed by market-based policy instruments such as energy taxes and emissions permits. Financial markets influence investment decisions by households, firms, and government. As trade and capital markets are increasingly interdependent, these decisions also can affect the welfare of literally millions of individuals beyond our borders, particularly those in emerging market economies.

The discipline of microeconomics provides concepts and tools to understand and model economic decisions making by households, firms and institutions, and their interdependencies. This course uses those concepts and tools to understand and inform policy choices. It will also shed light on policy dilemmas that arise when the relevant actors do not behave according to standard assumptions.

Course Objectives:

Throughout this course you will:

- Learn the concepts and tools of microeconomic analysis;
- Use microeconomics to elucidate past and current policy choices;
- Be sensitized to the underlying assumptions of applied microeconomic analyses, as well as potential limitations.
- Develop the ability to critically evaluate policy debates and effectively contribute to decision-making.

Course Requirements:

Participating in class discussions is a must! A weekly set of exercises (handed out each week) will help you to apply the concepts and tools taught in class. In addition, participation can be enhanced by contributing your ideas to each week's discussion. In order to do so, please email a discussion topic (policy question) that is relevant to that week's main theme by noon on the day that class meets. There will be a "challenge" paper to read each week that complements – and at times even questions – some of the analytics in the main text each week. Those readings will help you think of discussion topics. We will do our best to cover as many of those topics as possible. Your performance in the course will be evaluated as follows:

	<i>Due Dates</i>	<i>Percent of Grade</i>
Exercises	TBA	20%
Participation	ALL CLASSES	10%
Midterm Exam I	Oct. 6	20%
Midterm Exam II	Nov. 17	20%
Final Exam	TBA	30%

Late submissions of exercises and take-home exams, without valid excuse, will be penalized by a full grade per day. Note also, that you are required to abide by the Code of Academic Integrity available on the web at <http://www.inform.umd.edu/CampusInfo/Departments/JPO>

Prerequisites:

This course is designed for graduate students interested in economics and policy, business, environment and conservation, economic development, and related disciplines that require knowledge about the economic base of decision making. Skills in college-level algebra are imperative.

Course Text and Materials:

1. William J. Baumol and Alan S. Blinder. 2005. *Microeconomics: Principles and Policy*, 10th Edition, South-Western College Publishers (ISBN: 0324221150)
2. Robert L. Heilbroner and Lester Thurow. 2002. *Economics Explained*, Touchstone, New York. (ISBN: 0684846411)
3. Various articles and other required materials will be assigned during the semester. Some assigned readings will be available at the library in hard copy. Papers in the *Journal of Economic Perspectives* are available in electronic form at <http://www.jstor.org/journals/08953309.html> and directly through the UMD Electronic Journals library system. Additional readings will be handed out during the semester.

Course Schedule:

September 1:

Introduction to Course

Major Concepts, Graphs, Problems with Graphs, Policy Applications

Readings:

- Baumol and Blinder, Chapter 1, Chapter 2 optional
- Heilbroner and Thurow, Chapters 1-2
- David Colander, "New Millennium Economics: How Did it Get This Way and What Way is It?", *Journal of Economic Perspectives*, Vol.14, No.1, Winter 2000, pp.121-132. (hand out in class)

- Richard H. Thaler, “From Homo Economicus to Homo Sapiens”, *Journal of Economic Perspectives*, Vol.14, No.1, Winter 2000, pp.133-141. (hand out in class)
- William Gale and Peter Orszag, Budget Deficits, National Saving, and Interest Rates”, *Brookings Papers on Economic Activity*, 2004, Vol. 2; READ only Pages 101-115 (hand out in class)

September 8:

Scarcity and Choice, Supply and Demand

Readings:

- Baumol and Blinder, Chapters 3-4
- Dani Rodrik, “Sense and Nonsense in the Globalization Debate”, *Foreign Policy* (available at: <http://humanrights.emory.edu/490/roderik.pdf>)
- Kimberly Elliot, “Big Sugar and the Political Economy of U.S. Agricultural Policy”, Center for Global Development Policy Brief, April 1, 2005 (available at www.cgdev.org)

September 15:

Consumer Choice; Demand and Elasticity

Readings:

- Baumol and Blinder, Chapters 5-6
- Carol Graham, “The Economics of Happiness”, Chapter in the *New Palgrave Dictionary of Economics* (hand-out).
- Nancy Birdsall and Amad Hamoudi, “Commodity Dependence, Trade, and Growth: When “Openness” is Not Enough”, *CGD Working Paper #7*, May 2002 (available at www.cgdev.org).

September 22:

Production, Inputs, and Cost

Readings:

- Baumol and Blinder, Chapter 7
- Heilbroner and Thurow, Chapters 3-4
- Robert L. Axtell, “The Zipf Distribution of Firm Sizes”, *Science*, Vol.293, 7 September, 2001.

September 29:

Output, Price, and Profit: Marginal Analysis

Midterm Review

Readings:

- Baumol and Blinder, Chapter 8
- Colin Camerer et al., “Labor Supply of New York City Cab Drivers One Day At a Time”, in Daniel Kahneman and Amos Tversky, *Choices Values and Frames* (New York: Russell Sage, 2000), pp.356-369.
- Terrance Odean, “Are Investors Reluctant to Realize Their Losses?” in Kahneman and Tversky, pp.371-392.

October 6:

Midterm Exam I in Class

October 13:

The Firm and the Industry Under Different Kinds of Competition

Guest Lecturer: Clifford Winston, The Brookings Institution

Readings:

- Baumol and Blinder, Chapters 10-11
- Heilbroner and Thurow, Chapter 8
- Clifford Winston, “U.S. Industry Adjustment to Economic Deregulation”, *Journal of Economic Perspectives*, Vol.12, No.3, Summer 1998, pp.89-110.

October 20:

Monopoly and Oligopoly

Readings:

- Baumol and Blinder, Chapters 12 and 14
- Heilbroner and Thurow, Chapter 13-14
- Alberto Chong and Florencio Lopez-de-Silanes, “Privatization in Latin America: What Does the Evidence Say?” *Economia*, Vol.4, No.2, Spring 2004, pp. 37-113. (Also available as: <http://muse.jhu.journals/economia/v004/4.2lopez-calva.pdf>)

October 27:

Market Failures, Markets and Innovation, and Stock Markets

Readings:

- Baumol and Blinder, Chapters 9, 15, and 16
- Carol Graham, Robert Litan, and Sandip Sukhtankar, “The Bigger They Are, the Harder They Fall: The Costs of the Crisis in Corporate Governance”, *The Milken Review*, First Quarter, 2003.
- Shang-Jin Wei and Heather Milkiewicz, “A Case of Enronitis? Opaque Self-Dealing and the Global Financial Effect”, *Brookings Policy Brief*, No.118, April 2003 (available at www.brookings.edu).
- Robert Schiller, *Irrational Exuberance* (recommended for those with an interest in financial markets).

November 3:

The Distribution of Income: Production Factors and Labor

Readings:

- Baumol and Blinder, Chapters 19-20
- Gary Burtless and Christopher Jencks, “American Inequality and Its Consequences” in Aaron, Lindsay, and Nicola, eds., *Setting National Priorities* (Brookings, 2004). (Web version available; details to come)
- Andrew E. Clark and Andrew J. Oswald (1994), “Unhappiness and Unemployment”, *The Economic Journal*, Vol. 104, No. 424 (May)
- Charles L. Schultze, “Offshoring, Import Competition, and the Jobless Recovery”, *Brookings Policy Brief* #136, August 2004 (available at www.brookings.edu)
- Moran, Ted, “Trade Agreements and Labor Standards”, *Brookings Policy Brief* #133, May 2004 (available at www.brookings.edu)

November 10:**Poverty, Inequality, and Discrimination****Readings:**

- Baumol and Blinder, Chapter 21
- Burtless, Gary and Sarah Siegel, “Medical Spending, Health Insurance, and Measurement of American Poverty”, *CSED Working Paper #22*, The Brookings Institution, August 2001 (available at www.brookings.edu, look for Center on Social and Economic Dynamics working papers)
- Bertrand, Marianne and Sendhil Mullainathan (2004) “Are Emily and Greg More Employable than Lakisha and Jamal? A Field Experiment on Labor Market Discrimination”, *NBER working paper 9873* (available at <http://post.economics.harvard.edu/faculty/mullainathan/papers/emilygreg.pdf>) (also published in the *American Economic Review*)
- Carol Graham and Andrew Felton, “Does Inequality Matter to Individual Welfare? An Initial Exploration Based on Happiness Surveys from Latin America”, *Center on Social and Economic Dynamics working paper No. 38*, Brookings Institution, January 2005 (available at: www.brookings.edu/es/dynamics/)
- LaDonna Pavetti, “The Challenge of Achieving High Work Participation Rates in Welfare Programs”, *Brookings Policy Brief*, Welfare Reform and Beyond #31, October 2004 (available at www.brookings.edu)

November 17:**Midterm Exam II****December 1:****Fiscal Policy and Resource Allocation; Externalities and the Environment****Readings:**

- Baumol and Blinder, Chapters 17-18
- Thurow, Chapter 16
- Alice Rivlin and Isabel Sawhill, “How to Balance the Budget”, *Brookings Policy Brief # 130*, March 2004 (available at www.brookings.edu)
- Pritchett-Summers memo on sending US trash to Third World
- Warwick McKibbin, “Sensible Climate Policy”, *Lowi Institute Papers*, February 2005 (available at www.brookings.edu – look under scholars, McKibbin)

December 7:**The International Dimension****Readings:**

- Baumol and Blinder, Chapter 22
- Branko Milanovic, “World’s Apart: Inter-National and World Inequality, 1995-2000”, Mimeo, World Bank Research Department, February 2002 (hand-out).
- Pinelopi Goldberg and Nina Pavcnik, “Trade, Inequality, and Poverty: What Do We Know?” in Susan Collins and Carol Graham, eds., *Brookings Trade Forum 2004: Globalization, Poverty, and Inequality* (Brookings, 2005) (hand-out)
- Carol Graham, “Some Insights on Development from the Economics of Happiness”, *World Bank Research Observer*, Fall 2005 (hand-out)

December 15:**Final Exam in class**