

PPA 723
Managerial Economics for Public Administrators
Fall 2009

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Office Hours:
Tuesday 12:45-1:45 PM
Wednesday 10:00-noon
or by appointment

Course Description: The goal of this course is to introduce you to the application of the principles of microeconomic analysis to policy questions. Upon completion of the course, you should be able to understand basic economic analysis of public policy and be able to apply the principles of economics to these policies.

Of course, to apply economic principles to public policy, we first need to master the tools that economists use. Microeconomics studies the *allocation of scarce resources* among individual agents. Examples of such agents include consumers, firms, or workers. The allocation of resources is determined by interactions in *markets*. The course will focus on how markets work. In particular, we will see how agents, such as buyers and sellers, are able to interact in such a way that mutually beneficial exchanges are possible. As we analyze various market scenarios, we will ask what role government intervention into the market may play, and whether such intervention is necessary.

We begin by introducing the basic model of market interaction – supply and demand curves in perfect competition. Most of the first half of the course will be spent developing the models of consumer and producer behavior underlying these curves. Then, we examine situations in which the perfectly competitive model breaks down, such as in the face of monopolies or pollution. We will be interested both in the effects brought on by such complications and possible remedies for them. Finally, the course concludes with an introduction of cost-benefit analysis.

Reading: The textbook for this course is *Microeconomics for Public Decisions* by Anne C. Steinemann, William C. Apgar, and H. James Brown. It is available at the Orange bookstore. Please note that some economics sections are using a different text, so be sure to purchase the correct one. Lectures will roughly follow the material in the book, although material not in the book will be covered. You will be responsible for all material covered in lecture, whether or not it is also in the text. You should use the lectures, rather than the text, as a guide to the level of understanding you are expected to master. The text is intended to be a supplement to the lectures. It provides background information, examples, and does an excellent job of describing the intuition of economic theory, particularly as applied to public decision makers.

In addition, a few supplementary readings will be used. These articles are mostly taken from sources such as *The New York Times* and *The Economist*. Their purpose is to illustrate how the principles we discuss in class apply in everyday situations. All of these articles are available electronically through the Syracuse University library. Links to the articles are available on the class web site.

Prerequisites: The course is designed for students with little or no background in economics. The only mathematics used are graphs and algebra. The math review for PA students at the beginning of the semester will cover the necessary math for this course. If you are unfamiliar with this material and/or are unsure whether you have the proper preparation, please see the information on mathematic resources and tests found at www.maxwell.syr.edu/pa.

Home page: A home page for this course will be available at:

<http://classes.maxwell.syr.edu/pa723/index.html>

You can also connect to the home page through my personal home page, which can be found at:

<http://faculty.maxwell.syr.edu/dcpopp/index.html>

The web site includes information about the class, links to articles on the reading list, and useful economics links. In addition, during the semester, problem sets and solutions will be posted. Finally, after each class, I will post the main points of the lecture for review.

E-mail discussion group: I have set up an e-mail discussion group for the class. All students are expected to subscribe to the mailing list, and to check e-mail regularly. Information on how to subscribe is included below. You may use this list for any class related activities, such as asking questions, continuing discussions from class, and instigating new discussions. In particular, I hope that it will be useful to you as you work on homework assignments. I will use the list to post practice problems, keep you informed about assignments, answer questions, and instigate discussion. When messages are sent to the list, all students subscribed to the list will get the message.

To subscribe to the list, send an e-mail to listserv@listserv.syr.edu with the following message:

SUB PPA723 Jan Smith

Note that this is all that need be in the body of the message, and that it must be typed in exactly as written, except, of course, that you should replace your name for Jan Smith. When you sign up, you will receive a message with detailed instructions for participating in the mailing list. ***This message will ask that you reply, so as to confirm that you intended to join the list. It is important that you remember to reply, or else you will not be added to the list!***

Also, be sure to type “SUB PPA723” **not** “SUB PPA 723” (that is, do not include a space between PPA and 723). If you do add the space, listserv will attempt to add you to a list with the name “PPA” rather than “PPA723,” and you will get the following error message:

“Your request is being forwarded to LISTSERV@YORKU.CA”

Should you receive this message, please re-send your request, being sure to type the command correctly.

A couple of technical notes: E-mails sent to the list are sent to EVERYONE who subscribes to the list. If you want to send a personal e-mail to a specific class member (or to me), use their e-mail address, not the list's address. The list is a good place to ask questions about class materials, because everyone can see the answer. It is not the way to let me know that you are going to miss class on Thursday. For that you should send an e-mail to me personally. Also, I am considered the owner of this list. If you experience any problems, please e-mail me directly. My e-mail address is dcpopp@maxwell.syr.edu.

Grading: Your grade in this course will be based on problem sets (10%), completion of two policy memos (30%), two quizzes (30%), and a final exam (30%).

Both quizzes will be held in class, on the dates listed in the syllabus. The final exam is scheduled by the P.A. department, and its time and place will be announced at a later date. All quizzes and exams will be closed book exams – no notes or books may be used during the quizzes and exams. If you must miss one of the quizzes or the final exam due to illness, family emergency, or religious holiday, a makeup exam may be arranged, provided that appropriate documentation of the emergency can be provided. ***Except in the case of illness or unexpected family emergency, arrangements for the makeup exam must be made before the originally scheduled exam date.***

If you believe that you need accommodations for a disability, please contact the Office of Disability Services(ODS), <http://disabilityservices.syr.edu>, located in Room 309 of 804 University Avenue, or call (315) 443-4498 for an appointment to discuss your needs and the process for requesting accommodations. ODS is responsible for coordinating disability-related accommodations and will issue students with documented disabilities Accommodation Authorization Letters, as appropriate. Since accommodations may require early planning and generally are not provided retroactively, please contact ODS as soon as possible.

Policy Memos: Each policy memorandum is based on one of the three case studies, which are included on the course outline. The three cases provide students with practical applications of the tools taught in this course to real policy issues, as well as practice at oral and written communication skills. They are graded on effectiveness, including both writing and analysis. All students are expected to prepare for each case, not just for the ones selected for memos, and to participate in case discussions. During case discussions (as during all class discussions), students are expected to treat all their classmates with respect.

Each student is required to hand in *two* cases to be graded. Memos are due at the end of class the day they are listed on the syllabus. Thus, you may choose whether or not to hand in a memo based on the discussion of the memo held in class. However, *the memos must be typed, and changes made to the memo during class will be ignored.* Late memos will not be accepted, as it would be unfair to other students to hand in a memo after the case has been discussed in class.

Problem Sets: Problem sets will be distributed in class approximately once a week. *Problem sets will be due at the beginning of class on the day that they are due.* Handwritten work is acceptable, but must be legible. Note that problem sets are intended to be learning experiences for you. Problem sets will be graded on your effort to solve the problem, not on correctness. You are encouraged to consult other students and myself for help with the problem sets, with two caveats. First, the work that you turn in must be your own. If you do work with someone, both of you should hand in solutions *in your own words*. Second, attempt the problems yourself before consulting others. This is for your own benefit, since you won't be able to consult others during exams!

Finally, note that if you miss a class, it is your responsibility to find out if you missed any assignments or handouts. Not being present when an assignment was given out is **not** an acceptable excuse for missed or late work!

Academic Honesty: Students are expected to abide by the academic rules and regulations established by Syracuse University. These require students to “exhibit honesty in all academic endeavors. Cheating in any form is not tolerated, nor is assisting another person to cheat. The submission of any work by a student is taken as a guarantee that the thoughts and expressions in it are the student's own except when properly credited to another. Violations of this principle include giving or receiving aid in an exam or where otherwise prohibited, fraud, plagiarism, or any other deceptive act in connection with academic work. Plagiarism is the representation of another's words, ideas, programs, formulae, opinions, or other products of work as one's own, either overtly or by failing to attribute them to their true source” (*Syracuse University Bulletin* 2003-2004: p. 2). Of particular importance, while you may work with other students on problem sets and cases, the final product must be *in your own words*. For more information on Syracuse University’s academic integrity policies, see <http://academicintegrity.syr.edu/>.

Course Outline

I. Introduction: Microeconomics and Markets

September 1 – Introduction

Reading: Chapter 1

“Food, drugs and economics,” *The Economist*, August 23, 2003, 54.

Kolata, Gina, “Tiny Heart Devices Reduce Death Rate, But Cost is Concern,” *The New York Times*, March 20, 2002, A1, A26.

September 3 & 8 – Supply and Demand

Reading: Chapter 2, Chapter 3, pp. 47-59, Chapter 4, pp. 77-84

Kruger, Alan B., “Economic Scene: The commercial resilience of New York is clear three years after the 9/11 attacks,” *The New York Times*, September 16, 2004, C2

Bradsher, Keith, “Fuel Subsidies Overseas Take A Toll on U.S.,” *The New York Times*, July 28, 2008, A1, A9.

September 10, 15 & 17 – Applications of Supply and Demand

Reading: Chapter 3, pp. 60-72 & Chapter 7

Varian, Hal R., “Economic Scene: Is Affordable Housing Becoming an Oxymoron?” *The New York Times*, October 20, 2005, C2.

“The great Manhattan rip-off,” *The Economist*, June 7, 2003, 25-26.

“Your part or mine?” *The Economist*, November 18, 2006, 60-62.

“Trading Down,” *The Economist*, May 30, 2009, S4-S6.

Leonhardt, David, “To Reduce the Cost of Teenage Temptation, Why Not Just Raise the Price of Sin?”, *The New York Times*, July 25, 2005, C3.

Mariani, John, “Gas tax cap comes off, but so what?” *Syracuse Post-Standard*, June 8, 2008, B1, B3.

September 22 – Case # 1, A Living Wage for Syracuse

II. Consumer Theory – Utility and the Derivation of the Demand Curve

September 24 & 29– Consumer Behavior: An Introduction to the Concept of Utility

Reading: Chapter 4, pp. 75-77 & 84-89

“The benevolence of self-interest,” *The Economist*, December 12, 1998, 80

Frank, Robert H., “Economic Scene: Of Hockey Players and Housing Prices,” *The New York Times*, October 27, 2005, C2.

October 1 & 6 – Applications of Consumer Theory

Reading: Chapter 4, pp. 90-99

Schultze, Charles L., “The Consumer Price Index: Conceptual Issues and Practical Suggestions,” *Journal of Economic Perspectives*, Winter 2003, vol. 17, no. 1, pp. 3-22.

Postrel, Virginia, “Economic Scene: Research Changes Ideas About Children and Work,” *The New York Times*, July 14, 2005, C2.

THURSDAY, OCTOBER 8 – QUIZ # 1

III. Producer Theory – Production, Costs, and the Derivation of the Supply Curve

October 13 – Production

Reading: Chapter 5, pp. 127-132

October 15 – The Costs of Production

Reading: Chapter 5, pp. 105-114

Kruger, Alan B., “Economic Scene: What’s the most cost-effective way to encourage people to turn out to vote?” *The New York Times*, October 14, 2004, C2.

October 20 & 22 – The Behavior of Firms Under Perfect Competition: Profit Maximization and the Derivation of the Supply Curve

Reading: Chapter 5, pp. 114-125

Krauss, Clifford, “Ethanol’s Boom Stalling as Glut Depresses Price,” *The New York Times*, September 30, 2007, A1.

Krauss, Clifford, “Ethanol, Just Recently a Savior, Is Struggling,” *The New York Times*, February 12, 2009, A1 & A21.

Davey, Monica, “Ethanol Is Feeding Hot Market for Farmland,” *The New York Times*, August 8, 2007, A1, A16.

Gonzalez, David, “A Coffee Crisis’ Devastating Domino Effect in Nicaragua,” *The New York Times*, August 29, 2001, A3.

Varian, Hal R., “Economic Scene: Why Old Media and Tom Cruise Should Worry About Cheaper Technology,” *The New York Times*, C3, October 19, 2006.

“Of horses’ teeth and liberty,” *The Economist*, October 27, 2007, 44.

IV. Putting it All Together – Perfect Competition

October 27 – Perfect Competition and Economic Welfare

Reading: Chapter 6

Leonhardt, David, “A Time for Some Well-Placed Greed,”
The New York Times, October 3, 2005, C3.

Leonhardt, David, “Limits In a System That’s Sick,” *The New York Times*, June 17, 2009, B1 & B9.

V. Market Power

October 29 & November 3 – The Effects of Market Power: Monopolies

Reading: Chapter 8, Chapter 10 pp. 235-250

November 5 – No Class

November 10 – Case #2, “Profit” Maximization for Non-Profits

VI. Factor Markets

November 12 – Factor Markets: Labor Supply and Demand

Reading: TBA

TUESDAY, NOVEMBER 17 – QUIZ #2**VII. Market Failures and the Role of the Government**

November 19 – Public Goods

Reading: Chapter 10

Porter, Eduardo, “Radiohead’s Warm Glow,” *New York Times*, October 14, 2007, D14.

Gross, Daniel, “Economic View: What’s the Toll? It Depends on the Time of Day,” *The New York Times*, February 11, 2007, C7.

November 24 – Externalities

Reading: Chapter 9

Leonhardt, David, “Soda’s a Tempting Tax Target,” *The New York Times*, May 20, 2009, B1 & B7.

Shoup, Donald, “Gone Parkin’,” *The New York Times*, March 29, 2007, A25.

VII. Cost-Benefit Analysis

December 1, 3 & 8 – Cost-Benefit Analysis

Reading: Chapters 12, 13, & 14

Wald, Matthew L, “Energy Dept. Said to Err on Coal Project,” *The New York Times*, March 11, 2009.

“Economic focus: The regulators’ best friend?” *The Economist*, April 2, 2005, p. 72.

December 10 – Case # 3 – Cost-Benefit Analysis