

API-102B
Economic Analysis of Public Policy

Lecture: Mondays and Wednesdays, 10:15-11:30, Wexner 330
Review Session: Fridays, 10:15-11:30, Rubenstein 306

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The Course

This course builds on API-101 to develop microeconomic tools of analysis for policy problems through various policy applications. The course is broadly focused on evaluating the rationale for government intervention in the economy and evaluating the efficiency, incentive, and distributional effects of government policies. The B section focuses on applications at the nexus of business and government, including energy policy, competition policy, environmental regulation, financial markets, labor markets, public health and safety, and insurance markets.

Prerequisites

Microeconomics at the level of API-101 or equivalent. The course is intended for first-year students in the Harvard Kennedy School's MPP program, and is open to others only through permission of the instructor.

Readings

There is no required text for the course. Assigned readings will be available online through the course website. Note that most readings in this syllabus have direct hyperlinks for online access by Harvard students. Readings should be completed prior to class.

Evaluation

Grades will be based 10% on a group exercise, 15% on problem sets, 25% on the midterm exam, and 50% on the final exam. There will be five problem sets distributed throughout the semester. Your highest four scores will count towards your grade. **Late assignments will not be accepted.** Students are expected to be familiar with and abide by the [HKS Academic Code](#). Violations of the academic code will not be tolerated.

Schedule of Course Meetings

<u>Date</u>	<u>Topic</u>
Jan 28	Market Failures
Jan 30	Government Failures
Feb 4	Benefit-Cost Analysis Framework
Feb 6	Benefits Valuation
Feb 11	Cost Estimation and Cost-Effectiveness
Feb 13	Discounting
Feb 18	NO CLASS – PRESIDENTS DAY
Feb 20	Uncertainty
Feb 25	Distributional Implications
Feb 27	Regulatory Mandates
Mar 4	Midterm Exam
Mar 6	Market-Based Incentives
Mar 11	Tax Instruments
Mar 13	Credit Instruments
Mar 18	NO CLASS – SPRING BREAK
Mar 20	NO CLASS – SPRING BREAK
Mar 25	International Trade
Mar 27	Information and Defaults
Apr 1	Insurance
Apr 3	Liability
Apr 8	Financial Market Oversight
Apr 10	Labor Market Regulation
Apr 15	Competition Policy
Apr 17	Innovation Policy
May 8	Final Exam

Schedule of Friday Review Sessions

Feb 1	Section
Feb 8	Section
Feb 15	Section
Feb 22	Section
Mar 1	Section: Review for Midterm
Mar 8	Section
Mar 15	No Section – Spring Break
Mar 22	No Section – Spring Break
Mar 23	Section
Mar 29	Section
Apr 5	Section
Apr 12	Section

Schedule of Assignments and Exams

Feb 6	Problem Set 1 Due
Feb 13	Problem Set 2 Due
Feb 20	Problem Set 3 Due
Mar 4	Midterm Exam
Apr 3	Group Assignment Due
Apr 10	Problem Set 4 Due
Apr 17	Problem Set 5 Due
May 8	Final Exam

Readings and Assignments

Monday, January 28

Market Failures

[Mankiw, G. 2006. The Pigou Club Manifesto. Greg Mankiw's Blog, October 20.](#)

[Whitney, Craig R. 1997. Jeanne Calment, World's Elder, Dies at 122. New York Times, August 5.](#)

[Barrett, Scott. 2008. Why We Need to Focus on Global Public Goods. RFF Policy Commentary, January 7.](#)

[Who Is Afraid of Commodity Cartels? Editorial, Financial Times, June 9, 2011.](#)

Wednesday, January 30

Government Failures

[Winston, C. 2007. Government Failure vs. Market Failure \(book excerpt\). Milken Institute Review \(First Quarter\): 57-76.](#)

[Becker, Gary. 2011. Market Failure Compared to Government Failure. Becker-Posner Blog, September 18.](#)

Monday, February 4

Benefit-Cost Analysis Framework

[Arrow, Kenneth J. et al. 1996. Is There a Role for Benefit-Cost Analysis in Environmental, Health, and Safety Regulation? Science 272: 221-222.](#)

[Kelman, S. 1981. Cost-Benefit Analysis: An Ethical Critique. Regulation Jan/Feb: 74-82.](#)

Wednesday, February 6

Benefits Valuation

[Viscusi, W.K. and J.E. Aldy. 2003. The Value of a Statistical Life: A Critical Review of Market Estimates throughout the World. Journal of Risk and Uncertainty 27\(1\): 5-76. \(Focus on sections 1, 2, 9\)](#)

Problem Set 1 Due.

Monday, February 11
Cost Estimation and Cost-Effectiveness

[Viscusi, K. and T. Gayer. 2002. Safety at Any Price? Regulation 25\(3\): 54-63.](#)

Wednesday, February 13
Discounting

[Arrow, Kenneth et al. 2013. Determining Benefits and Costs for Future Generations. Science 341: 349-350.](#)

[Nordhaus, W.D. 2007. Critical Assumptions in the Stern Review on Climate Change. Science, July 25, 201-202.](#)

Problem Set 2 Due.

Monday, February 18
NO CLASS – PRESIDENTS DAY

Wednesday, February 20
Uncertainty

Dixit, A.K. and R.S. Pindyck. 1994. Investment Under Uncertainty, Chapter 2.

[Bloom, Nicholas. 2014. Fluctuations in Uncertainty. Journal of Economic Perspectives 28\(2\): 153-176.](#)

Problem Set 3 Due.

Monday, February 25
Distributional Implications

[Joskow, Paul L. and Nancy L. Rose. 1989. The Effects of Economic Regulation \(section 9, pp. 1486-1495\). In: R. Schmalensee and R.D. Willig, eds., Handbook of Industrial Organization, vol II. Elsevier.](#)

[Stigler, George. 1971. The Theory of Economic Regulation. Bell Journal of Economics and Management Science 2\(1\): 3-21.](#)

Wednesday, February 27
Regulatory Mandates

[Dudley, S.E. and W.B. DeLong. 2001. OSHA's Ergonomics Program Standard and Musculoskeletal Disorders: An Introduction. Journal of Labor Research 22\(1\): 1-14.](#)

[Anderson, Soren, Ian. W.H. Parry, James M. Sallee, and Carolyn Fischer. 2011. Automobile Fuel Economy Standards: Impacts, Efficiency, Alternatives. Review of Environmental Economics and Policy 5\(1\): 89-108.](#)

[Gruenspecht, Howard. 1982. Differentiated Regulation: The Case of Auto Emissions Standards. American Economic Review 72\(2\): 328-331.](#)

Monday, March 4
Midterm Exam

Wednesday, March 6
Market-Based Incentives

[Metcalfe, G. 2009. Market-Based Policy Options to Control U.S. Greenhouse Gas Emissions. Journal of Economic Perspectives 23\(2\): 5-27.](#)

[McMillan, John. 2003. Market Design: The Policy Uses of Theory. American Economic Review 93\(2\): 139-144.](#)

[Posner, R. 2009. A Soda or Calorie Tax to Reduce Obesity. The Becker-Posner Blog, May 24.](#)

[Becker, G. 2009. A Tax on Sodas? The Becker-Posner Blog, May 24.](#)

Monday, March 11
Tax Instruments

[Marron, Donald B. 2011. Spending in Disguise. National Affairs, Summer 2011, 20-34.](#)

[Baugh, B, I. Ben-David, and H. Park. 2014. The "Amazon Tax": Empirical Evidence from Amazon and Main Street Retailers. VOX, May 5.](#)

[Ruhm, Christopher J. 1997. Policy Watch: The Family and Medical Leave Act. Journal of Economic Perspectives 11\(3\): 175-186.](#)

[de Gorter, H. and D.R. Just. 2010. The Social Cost and Benefits of Biofuels: The Intersection of Environmental, Energy, and Agricultural Policy. Applied Economic Perspectives and Policy 32\(1\): 4-32.](#)

Wednesday, March 13
Credit Instruments

[Wind Jammers at the White House. 2010. Wall Street Journal, November 12.](#)

[Banerjee, Abhijit V. and Esther Duflo. 2010. Give Credit Where It Is Due. Journal of Economic Perspectives 24\(3\): 61-80.](#)

Monday March 18 and Wednesday March 20
Spring Break—No Classes

Monday, March 25
International Trade

[Krugman, Paul. 2007. Trouble with Trade. New York Times, December 28.](#)

[Dragusanu, Raluca, Daniele Giovannucci, and Nathan Nunn. 2014. The Economics of Fair Trade. Journal of Economic Perspectives 28\(3\): 217-36.](#)

Wednesday, March 27
Information and Defaults

[Glaeser, E.L. 2006. Paternalism and Psychology. Regulation Summer: 32-38.](#)

[Thaler, R.H. and C.R. Sunstein. 2003. Libertarian Paternalism. American Economic Review 93\(2\): 175-179.](#)

[Johnson, Eric J. and Daniel Goldstein. 2003. Do Defaults Save Lives? Science 302: 1338-1339.](#)

Monday, April 1
Insurance

[Brown, J. 2009. Guaranteed Trouble: The Economic Effects of the Pension Benefit Guaranty Corporation. Journal of Economic Perspectives 22\(1\): 177-198.](#)

[Einav, L. and A. Finkelstein. 2011. Selection in Insurance Markets: Theory and Empirics in Pictures. Journal of Economic Perspectives 25\(1\): 115-138.](#)

Wednesday, April 3
Liability

[Shavell, S. 2010. The Corrective Tax Versus Liability as Solutions to the Problem of Harmful Externalities. NBER Working paper 16235.](#)

[Heal, G. and H. Kunreuther. 2008. Environmental Assets and Liabilities: Dealing with Catastrophic Risks. Risk Management and Decision Processes Center Working paper 2008-11-06, Wharton School, University of Pennsylvania.](#)

Group Project Due.

Monday, April 8
Financial Market Oversight

[Campbell, John Y., Howell E. Jackson, Brigitte C. Madrian, and Peter Tufano. 2011. Consumer Financial Protection. Journal of Economic Perspectives 25\(1\): 91-114.](#)

[Greenstone, M., P. Oyer, and A. Vissing-Jorgensen. 2006. The Value of Knowing. Regulation \(Summer\): 52-61.](#)

[Lacko, James M. and Janis K. Pappalardo. 2010. The Failure and Promise of Mandated Consumer Mortgage Disclosures: Evidence from Qualitative Interviews and a Controlled Experiment with Mortgage Borrowers. American Economic Review 100\(2\): 516-521.](#)

Wednesday, April 10
Labor Market Regulation

[Manning, Alan. 2013. "+25%? To Raise, or Not to Raise, the Minimum Wage – Again." Milken Institute Review \(Third Quarter\): 46-55.](#)

[Long, M.C. and R.D. Plotnick. 2017. Lessons from Seattle's Courageous Minimum-Wage Experiment. The Seattle Times, June 28.](#)

Problem Set 4 Due.

Monday, April 15
Competition Policy

Viscusi, W.K., J.E. Harrington, and J.M. Vernon. 2005. Chapter 7: Mergers. In: Economics of Regulation and Antitrust. MIT Press, 203-233.

[Einav, Liran and Jonathan Levin. 2010. Empirical Industrial Organization: A Progress Report. Journal of Economic Perspectives 24\(2\): 145-162.](#)

Wednesday, April 17
Innovation Policy

[Henderson, Rebecca and Richard G. Newell. 2010. Accelerating Innovation in Energy: Insights from Multiple Sectors. Harvard Business School Working Paper 10-067.](#)

[Moser, Petra. 2013. Patents and Innovation: Evidence from Economic History. Journal of Economic Perspectives 27\(1\): 23-44.](#)

Problem Set 5 Due.

May 8
Final Exam