PUBP720: Managerial Economics and Policy Analysis
Fall 2017

DRAFT 8/6/2017

course credit: 3
location: Arlington Founders Hall, rm. 470
meeting time: Thursday 7:20-10:00PM
1st Day: January 25, 2017

email (preferred contact):
auerswald@gmu.edu

office hours: Wednesday 6:00-7:00PM (FH 664)
tel: 202-378-6438 (cell)

Description of the Course

LEARNING OBJECTIVES

This course is a workshop in using analytic techniques to answer difficult questions about human decision-making in a social context. Its purpose is to provide students with a sense of confidence in understanding

1) How individual decisions lead to aggregate (particularly industry-level) outcomes and vice versa, and
2) How public policies of various types affect both decisions and outcomes.

AUDIENCE

PUBP720 is a core MPP course. It is also a "bridge course" into Ph.D. level microeconomics courses for students with little prior background in economic analysis, but who are, at minimum, comfortable with algebra.

Note: This course will require you to develop basic literacy in the use of calculus. You are not required to have taken a calculus class before taking this course. However, you will be required to understand and to use calculus in this course.

In advance of the course, you should understand the material covered in the GMU Schar School Math Camp (PUBP 555) and the GMU Schar School math tutorials (http://schar.gmu.edu/current-students/masters-advising/masters-101/topic-6-quantitative-skills/math-for-economics-tutorials/). Math Camp is a free workshop offered to all students the week before each semester (http://schar.gmu.edu/wp-content/uploads/2015/10/Heffelmire-PUBP-555-001-Spring-2016.pdf).

Additionally I offer a 2-hour math workshop (see course outline below). I encourage you to take advantage of both the Math Camp and the additional Math Workshop that I offer.

STUDENT EXPERIENCE

We will be using class time in this course to do work together. Students must come to class every session prepared—which means in particular that you must have done the readings and viewed any lectures for that class session. This will allow us to spend class time answering questions such as:

- Is economics just propaganda?
Can higher taxes make you better off?
Will population growth ever stop?
Is the Internet creating jobs?
Why did the Soviet Union collapse?
Is there any way to keep traffic from getting worse?
Can economics end obesity?
Will US “energy independence” bring down gas prices?
Should we export trash to poor places?

EXPECTATIONS

The expectations in this class reflect those that exist in the workplace for policy analysts. Students are expected to be engaged contributors to every aspect of the work of the class. Students must create first-rate work of their own and must also contribute actively to collaborative efforts.

EVALUATION

Students’ grades in this course will be determined as a combination of
- Final exam: 50%
- Midterm: 30%
- Problem sets: 20% [to be described first week of class]

COMMUNICATIONS

You can access the class survey at
https://www.surveymonkey.com/r/ZCWG375

Please fill out the class survey ASAP, if you have not already done so.

The best way to reach me is either by email (auerswald@gmu.edu) or cell phone (202-378-6438). If you email a question to me that may require more than a yes/no answer (in particular, any questions regarding assignments), please include in the message a phone number at which you can be reached during the day.

When submitting both problem sets and exams, please
- Label each page with the first 5 digits of your GMU ID number ONLY. Do not put your name on any materials submitted for a grade.
- Put page numbers on every page.
- If submitting material by email or the course website, please use a descriptive file name beginning with “PUBP720” (e.g. <PUBP720_assignment-3_task-1_myname.doc> rather than <problem-set.doc> or, worse yet, <ver3_finalFINALrevB.doc>).

COURSE MATERIALS

You are required to purchase one of the two following editions of Microeconomics by Robert Pindyck and Daniel Rubinfeld:

If you can get either for roughly the same price, go for the 8th edition.

**Note:** This book costs $50 less on Amazon than it does at the bookstore. If you use your gmu.edu email address you will qualify for free Super Saver shipping:

http://www.amazon.com/gp/student/signup/info

Because I have found this option is strongly preferable for students, I have not ordered this textbook for the campus bookstore this semester.

If you have not done so already, please familiarize yourself with the library’s online resources (particularly JSTOR), and make sure that you have access to Adobe Acrobat Reader.

Finally, I strongly recommend that you purchase.


Also worth reading, if you haven’t already, are


*The Undercover Economist* and *Freakonomics* both provide numerous examples of the creative use of economic analysis in answering policy questions. *Freakonomics* is the cleverest of these three; however the other two books more closely track the material in a graduate level microeconomics course. Purchase these books is not required.

**Professional Ethics**

**HONOR CODE**

GMU shares in the tradition of an honor system that has existed in Virginia colleges since 1842. The Honor Code is an integral part of university life. Students are responsible for understanding the provisions of the code. In the spirit of the code, a student's word is a declaration of good faith acceptable as truth in all academic matters. Therefore, attempted cheating, plagiarism, lying, and stealing of academic work and related work constitute Honor Code violations. All work must be your own. Inappropriate use of the work of others without attribution is plagiarism and a George Mason University Honor Code violation punishable by expulsion from the University. All students should familiarize themselves with this honor code provision.

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1 Description thanks to Professor Steve Ruth.
POLICY ON PLAGIARISM

The profession of scholarship and the intellectual life of a university as well as the field of public policy inquiry depend fundamentally on a foundation of trust. Thus any act of plagiarism strikes at the heart of the meaning of the university and the purpose of the Schar School. It constitutes a serious breach of professional ethics and it is unacceptable.

Plagiarism is the use of another’s words or ideas presented as one’s own. It includes, among other things, the use of specific words, ideas, or frameworks that are the product of another’s work. Honesty and thoroughness in citing sources is essential to professional accountability and personal responsibility. Appropriate citation is necessary so that arguments, evidence, and claims can be critically examined.

Plagiarism is wrong because of the injustice it does to the person whose ideas are stolen. But it is also wrong because it constitutes lying to one’s professional colleagues. From a prudential perspective, it is shortsighted and self-defeating, and it can ruin a professional career.

The faculty of the Schar School takes plagiarism seriously and has adopted a zero tolerance policy. Any plagiarized assignment will receive an automatic grade of “F.” This may lead to failure for the course, resulting in dismissal from the University. This dismissal will be noted on the student’s transcript. For foreign students who are on a university-sponsored visa (eg. F-1, J-1 or J-2), dismissal also results in the revocation of their visa.

To help enforce the Schar School policy on plagiarism, all written work submitted in partial fulfillment of course or degree requirements must be available in electronic form so that it can be compared with electronic databases, as well as submitted to commercial services to which the School subscribes. Faculty may at any time submit student’s work without prior permission from the student. Individual instructors may require that written work be submitted in electronic as well as printed form. The Schar School policy on plagiarism is supplementary to the George Mason University Honor Code; it is not intended to replace it or substitute for it.

Course Outline

PART I: THEORY OF THE CONSUMER

August 26, 9:30am-noon (FH room 470): Math Workshop (JUST FOR MY SECTION OPTIONAL BUT RECOMMENDED)

Session 1: Overview of the course; consumer preferences, indifferences curves (August 31)

Policy question: Is economics just propaganda?

Required readings [read all in advance of the first class]

- Milton Friedman, “The Methodology of Positive Economics,” in Essays in Positive Economics, 1953; pp. 3-43 (Focus particularly on section V)
- Joseph Stiglitz, Nobel Prize Lecture, December 8, 2001

Required video

- Russ Roberts, Keynote Address, Mercatus Holiday Dinner, December 7, 2011
Policy topic [read all in advance of the first class]

  [link]
  [link]
- New York Times, “Is it Better to Buy or Rent?”
  [link]

Session 2. Utility Functions (September 7)

Policy question: Is happiness measurable?

Required readings:

- Hicks (1933, chapter 1) [see bibliography below]
  [link]

Session 3. Utility maximization; Income and substitution effects (September 14)

Policy question: Will population growth ever stop?

Required readings: Dasgupta (1995) [see bibliography below] and

  [link]
- J. Leland, “From the Housing Market to the Maternity Ward.” New York Times,
  February 1, 2008.
  [link]
- The Economist, “A Tale of Three Islands,” October 22, 2011
  [link]

Required video:

- Hans Rosling, 200 Countries, 200 Years, 4 Minutes
  [link]

Session 4. Review of problem set #1; Income and substitution effects, continued (September 21)

Policy question: Will population growth ever stop?

Required readings: Coase (1960), Chandler (1992), Barzel and Kochin (1992) and

Session 5. Property Rights, Contracting and Bargaining; Production and the Theory of the Firm

Policy question: Is the Internet creating jobs?

Required readings: Coase (1960), Chandler (1992), Barzel and Kochin (1992) and
  [http://online.wsj.com/article/SB10001424127887324461604578191781756437940.html](http://online.wsj.com/article/SB10001424127887324461604578191781756437940.html)

  [https://www.bcgperspectives.com/content/articles/strategy_growth_blown_to_bits_book/?chapter=1&pageNum=2](https://www.bcgperspectives.com/content/articles/strategy_growth_blown_to_bits_book/?chapter=1&pageNum=2)


**Required video**
- Debate between Tyler Cowen and Eric Brynjolfson, Techonomy, November 25, 2011

**Session 6: Review of problem set #2; Production, costs, and profits (October 5)**

**Workshop topic: Why did the Soviet Union collapse?**

**P&R:** Chapter 7

**Required reading:** Argote and Epple (1990)

in-class exercise: learning-by-doing in the manufacture of books

**problem set #2 due [MAKE A COPY BEFORE HANDING IN]**

**Session 7: Production, costs, and profits (continued); Industry Evolution (October 12)**

**Policy topics: Why do industries boom and bust?**

**Required reading:**

**Required podcast:**
  [https://www.economist.com/blogs/freeexchange/2014/03/bitcoin](https://www.economist.com/blogs/freeexchange/2014/03/bitcoin)

- Nathaniel Popper, “How China Took Center Stage in Bitcoin’s Civil War,” June 29, 2016

**Session 8. Efficiency and the analysis of competitive markets (October 19)**

**Policy topic: Can economics end obesity?**

**P&R:** Chapters 2 (again) and 8, 9 and 16

in-class exercise: market game

**Required readings:**

- David Leonhardt, “The Battle Over Taxing Soda,” May 18, 2010

- George Loewenstein and Peter Ubel, “Economics Behaving Badly,” July 15, 2010

**Session 9. Midterm Exam (October 12)**

- MIDTERM EXAM IS TAKE HOME. I WILL SEND IT TO YOU BY 6PM ON WEDNESDAY, OCTOBER 11. IT WILL BE DUE BY EMAIL OR FAX (202-330-5478) NO LATER THAN 9PM ON SATURDAY, OCTOBER 14.
WE WILL NOT MEET IN PERSON ON THIS DAY

PART III. MARKET FAILURE

Session 10. Review of midterm; Monopoly (November 2)
Policy topic: Will US “energy independence” put an end to high gas prices?
P&R: Chapter 10-12

  https://www.the-american-interest.com/2016/10/03/petrostate-production-soars-ahead-of-opec-cut/
- Clifford Kraus, “Venezuela Staves Off Default, but Low Oil Prices Pose a Threat,” April 12, 2014

Session 11. Monopoly, continued (November 9)
problem set #3/4 handed out

Session 12. Game theory; Cost-benefit analysis; externalities, public goods; regulation
(November 16)
Policy topic: Is there any way to keep traffic from getting worse?
P&R: Chapters 5, 13, 17 and 18

Required readings:
  http://www.nytimes.com/2008/08/03/magazine/03traffic-t.html

Session 13. Review of problem set 3/4; Externalities, public goods; regulation; Risk and uncertainty (November 30)
Policy topic: Is opting-out of health insurance the rational choice?
P&R: Chapters 5, 13, 17 and 18 [cont’d]

problem set #3/4 due
Session 14. Efficiency and social welfare; Review of the Course (December 7)

Policy topic: Should we export trash to poor places?
  readings: Sen (1999)
  P&R: Chapters 5, 13, 17 and 18 [cont’d]

FINAL EXAM—2.5 HOURS, CUMULATIVE (December 14, 7:30–10:15 pm)
IN CLASS—PLEASE BRING BLUE BOOK
https://registrar.gmu.edu/calendars/fall-2017/final-exams/

References


J.R. Hicks, Value and Capital, Oxford University Press, 1933. [will email PDF]
