ECON 660-01 Economic Theory and Applications in Public Policy

David Yi
yid@xavier.edu

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Instructor: Dr. David Yi  
Office: 329 Smith Hall  
Office Phone: 745-2933  
E-mail: yid@xavier.edu  
Office Hours:

Course Description

The purpose of this course is to provide students with a set of conceptual frameworks for analyzing the social and economics (and perhaps political) environment for public policy analysis and policy design. We will rely heavily on foundations of basic economic principles, skills and concepts. Students will learn to apply rational decision making principles to identify patterns of individual as well as collective behavior and outcomes to better understand public policy making.

In the course, (1) we will review competitive market outcome and study social welfare maximization. (2) discuss externalities and market failures, and then provide some reasonable solutions to these problems. (3) examine rationale for government intervention in the market place, and (4) discuss the ways that government raises its revenue and some of the consequences of it.

Course Material  
This course relies on course lecture notes and readings such as published and working research papers. I will post lecture notes and readings on class Canvas. It is your responsibility to check Canvas for any new posted class materials.

Attendance and Class Participation:  I believe class attendance and participation are closely linked with how well students learn and perform on exams. All students will be expected to participate fully in the discussion of materials. In other words, I expect you to be present in mind as well as body when you come to class. Students routinely will be called upon to provide definitions of terms, examples for theories under consideration, and theories for examples under discussion. Also, no laptops or smartphones or any computer devices are allowed are permitted during classroom time.

Weekly Quizzes: There will be 10-12 weekly quizzes at the beginning of each class (except on exam days). Quizzes are worth 20% of your final grade.

Midterm Exams: There will be three midterm exams given in class during the semester. Each midterm will count as 20% of your final semester grade. Exam questions will stress analysis including short essay questions, numerical problem solving, and defining economic terms or concepts. Using graphs to illustrate your reasoning is a critical part of answering most short essay questions. Any written answer that cannot be deciphered due to handwriting illegibility will be counted as a wrong answer. Exams will be based on the material covered in class. You may use a basic, non-programmable
calculator on exams. Cell phones should be turned off and put away before any exam begins. Once the exam is handed out, you will not leave the room until you are ready to hand in the exam.

**Exam Dates: September 12, October 17 and Nov 14**

**Final exam:** The final exam will be **comprehensive**, covering all of the course material for the whole semester. The final exam will count as 20% of your final semester grade. Again, exam questions will stress analysis including short essay questions, numerical problem solving, and defining economic terms or concepts. Using graphs to illustrate your reasoning is a critical part of answering most short essay questions. **Any written answer that cannot be deciphered due to handwriting illegibility will be counted as a wrong answer.** Exams will be based on the material covered in class. You may use a basic, non-programmable calculator on exams. Cell phones should be turned off and put away before any exam begins. Once the exam is handed out, you will not leave the room until you are ready to hand in the exam. Unless alternative arrangements are made before the final exam, a score of zero will be entered in my grade sheet for the final exam if you do not show up in the correct room and at the correct time for the final exam.

**Final Exam Date: Tuesday December 12 at 6PM.**
Tentative Class Schedule

I. Private Goods and Market Efficiency (4 lectures)

Define Market efficiency: Private Goods Market

Topics Covered:

Readings:
Aristotle’s Golden Mean
Consumer preference and utility maximization
Economic Behavior and Rationality

II. Public goods and Externalities (5 lectures)

Public Goods Market

Topics Covered:
Samuelson’s Condition
Public goods and Market failure
Government Crowding-out and private provision of public goods.
Market failures and solutions: Market Solutions to Market Failure-Ronald Coase Theorem

Readings:
Notes on Samuelson Condition
Notes on Coase Theory
Private Production of Public Goods - Demsetz
On the private provision of public good – Bergstrom, Blume and Varian
Government Crowding Out in Charity Donation – Andreoni

III. Group Decision Making (4 lectures)

Topics Covered:
Rational Choice Theory and Public Choice Theorem
Median Voter Theorem and the Rationale of Group Decision Making

Readings:
Notes on Arrow’s Impossibility Theorem
A difficulty in the Concept of Social Welfare – Kenneth Arrow
An Economic Theory of Political Action in a Democracy – Anthony Downs
On the Rationale of Group Decision Making – Duncan Black
The Effect of Post-Election Asymmetry Information Possibility on Pre-Election Policy Platform Choices – Yi
A Model of Candidate Location When One Candidate has a Valence Advantage – Groseclose
Modeling Negative Campaign – Skaperdas and Grofman
Informative Positive and Negative Campaigning – Polborn and Yi