

APPLIED WELFARE AND POLICY ANALYSIS

AREC 507
MWF 1:00 – 1:50pm

Spring 2016
Eddy 118

Instructor: Jordan Suter

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Office Hours (B-306 Clark): Mon. 2–3, Tues. 1–2, and by appointment

Description:

The primary objective of this course is to link microeconomic theory with policy analysis. To accomplish this, we will begin by covering methods for measuring welfare outcomes of consumers and producers. Using these measures, we will characterize market outcomes, highlight common types of market failure as well as policy solutions and investigate the implementation of cost benefit analysis. In assessing economic policy options, we will discuss distributional and political economy considerations as well as the role of behavioral economics in influencing policy design and assessment. As a critical component of the course, students will be expected to write a research paper assessing the welfare effects of a specific policy or program.

Course Objectives:

- (1) Learn how to measure welfare outcomes for consumers and producers and identify the magnitude of specific market failures.
- (2) Develop an ability to rigorously compare the benefits and costs of competing policies or projects, including distributional, behavioral and political economy considerations.
- (3) Improve ability to conduct original research by critically assessing the welfare implications of a specific economic policy or project.

Readings:

The readings will come from the textbook listed below or made available on Ram CT. The readings that are required for a given class are indicated in the course schedule and will be announced in class. All documents, including the course schedule, problem sets, and exams will be posted on Ram CT.

Just, R.E, D.L. Hueth, and A. Schmitz, *The Welfare Economics of Public Policy: A Practical Approach to Project and Policy Evaluation*. 2004. Edward Elgar Publishing.

Grading (out of 100%):

4 Problem sets (10%) – You will be given one week to complete each problem set. *Late assignments will not be accepted*, however, the lowest grade of the four problem sets will be dropped. You can work on an assignment with, at most, one other classmate, but if you do so please only turn in one problem set with both of your names at the top.

Midterm exams (25%) – Two in-class exams will be given during the semester that will test the material covered in class and the assigned readings.

Final exam (30%) – A comprehensive final exam will be given during the exam period.

Research paper and presentation (30%) – In this paper you will investigate a research question related to the welfare effects of a particular policy or program. The paper should include a literature review, a description of the theoretical incentives faced by producers and consumers, as well as how economic welfare related to the policy could be measured. Ideally the paper will also include some

empirical analysis related to the welfare effects of the policy. Finally, the paper should include a discussion of how the policy or project could be improved in the future. Students will present their research results to the rest of the class during the last two weeks of the semester.

Participation and feedback on readings (5%) – Participation in all class discussions is valued. We will cover at least one reading from the literature each week and for most readings one student will be assigned to lead the class discussion.

Academic Integrity:

This course will adhere to the Academic Integrity Policy of the CSU General Catalog and the Student Conduct Code. I expect all work that you do in the course to be your own, with the exception of problem sets, where you can work with one other student. Cases of plagiarism in written work will be taken seriously, so please familiarize yourself with CSU's guide to avoiding plagiarism (<http://writing.colostate.edu/guides/researchsources/understandingplagiarism/plagiarismoverview.cfm>).

Resources for Disabled Students:

If you have a documented disability and wish to discuss academic accommodations, please contact me as soon as possible to set up appropriate arrangements. Further info- <http://rds.colostate.edu/students>

Course Outline:

- Weeks 1 – 3: *General equilibrium analysis* - Pareto efficiency, Kaldor-Hicks criterion, social welfare functions.
- Weeks 4 – 8: *Welfare measurements* – measuring welfare for consumers, producers, and factor owners, aggregation and welfare analysis of market policies.
- Weeks 9 – 11: *Market failure* – information provisioning, externalities, public goods.
- Weeks 12 – 13: *Cost benefit analysis* – discounting, distributional concerns, case studies, cost-effectiveness analysis.
- Weeks 13 – 15: *Behavior and political economy* – experiments for policy evaluation, policy considerations from behavioral economics and political economy.
- Weeks 15 – 16: *Student presentations*

Course Schedule

Week	Monday	Wednesday	Friday
1	Jan. 18	JHS Ch. 1	JHS Ch. 2
2	Jan. 25 JHS Ch. 2	JHS Ch. 2	Hayek 1945
3	Feb. 1 JHS Ch. 3	JHS Ch. 3, PS 1 due	Sen 1989
4	Feb. 8 JHS Ch. 4	JHS Ch. 4	Exam 1
5	Feb. 15 JHS Ch. 5	JHS Ch. 6, Paper proposal due	Qaim and Traxler 2005
6	Feb. 22 JHS Ch. 6	JHS Ch. 7	Casey et al. 2006
7	Feb. 29 JHS Ch. 7	JHS Ch. 8, PS 2 due	Lichtenberg and Zilberman 1986
8	Mar. 7 JHS Ch. 11	JHS Ch. 11	Salanie and Treich 2009
9	Mar. 14 Spring Break	Spring Break	Spring Break
10	Mar. 21 JHS Ch. 13	JHS Ch. 13, PS 3 due	Rabotyagov et al. 2014
11	Mar. 28 JHS Ch. 14	JHS Ch. 14	Exam 2
12	Apr. 4 B Ch. 19	B Ch. 19, Lit review due	Howe 1986
13	Apr. 11 B Ch. 18	Ferraro 2014, PS 4 due	Ludwig et al. 2011
14	Apr. 18 Ferraro 2014	Madrian 2014	List 2007, Paper draft due
15	Apr. 25 Just 1988	Lee et al. 2004	Presentations
16	May 2 Presentations	Presentations	Presentations

Reading details

Casey et al., 2006 "Willingness to pay for improved water service in Manaus, Amazonas, Brazil"

Ferraro and Hanauer, 2014 "Advances in measuring the environmental and social impacts of environmental programs"

Hayek, 1945 "The use of knowledge in society"

Howe, 1986 "Project benefits and costs from national and regional viewpoints: methodological issues and study of the of Colorado-Big Thompson Project"

Just, 1988 "Making economic welfare analysis useful in the policy process: implications of the public choice literature"

Lee et al., 2004 "Do voters affect or elect policies? Evidence from the U.S. House"

Lichtenberg and Zilberman, 1986 "Welfare economics of price supports in U.S. agriculture"

List, 2007 "On the interpretation of giving in dictator games"

Ludwig et al., 2011 "Mechanism experiments and policy evaluations"

Madrian, 2014 "Applying insights from behavioral economics to policy design"

Qaim and Traxler, 2005 "Roundup Ready soybeans in Argentina: farm level and aggregate welfare effects"

Rabotyagov et al., 2014 "The economics of dead zones: causes impacts, policy challenges, and a model of the Gulf of Mexico hypoxic zone"

Salanie and Treich, 2009 "Regulation in Happyville"

Sen, 1989 "Development as capability expansion"