

# APPLIED WELFARE AND POLICY ANALYSIS

AREC 507  
MWF 1:00 – 1:50pm

Spring 2017  
Eddy 118

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**Instructor:** Jordan Suter

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**Office Hours (B-306 Clark):** Tues. 2–3pm, Thurs. 10–11am, and by appointment

## **Description:**

The primary objective of this course is to link microeconomic theory with the assessment of social outcomes and policy impacts. 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 plan for 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.

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## **Readings:**

The readings will come from the textbook listed below or made available on Canvas. 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. Each problem set that is turned in will be assessed a grade of check, check minus, or incomplete. *Late assignments will not be accepted.* 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 (30%) – 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 plan and presentation (25%) – You will be expected to define a research question related to the welfare effects of a particular policy or program and propose a plan for rigorous economic research to address the question. The plan should include a literature review, a description of the theoretical incentives faced by producers and consumers, as well as how economic welfare could be

empirically measured. The research plans will be presented to the rest of the class during the last two weeks of the semester.

Participation (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 of your work 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: *Behavioral economics 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	<b>Jan. 16</b>	JHS Ch. 1	JHS Ch. 2
2	<b>Jan. 23</b>	JHS Ch. 2	Hayek 1945
3	<b>Jan. 30</b>	JHS Ch. 3, <b>PS 1 due</b>	Abasolo and Tsuchiya 2004
4	<b>Feb. 6</b>	JHS Ch. 4	Qaim and Traxler 2005
5	<b>Feb. 13</b>	JHS Ch. 5	<b>Exam 1</b>
6	<b>Feb. 20</b>	JHS Ch. 6, <b>Research proposal due</b>	Darby et al. 2008
7	<b>Feb. 27</b>	JHS Ch. 8, <b>PS 2 due</b>	Lichtenberg and Zilberman 1986
8	<b>Mar. 6</b>	JHS Ch. 9	Jensen 2010
9	<b>Mar. 13</b>	Spring Break	Spring Break
10	<b>Mar. 20</b>	JHS Ch. 13, <b>PS 3 due</b>	Kremer et al. 2011
11	<b>Mar. 27</b>	JHS Ch. 14	<b>Exam 2</b>
12	<b>Apr. 3</b>	Boardman Ch. 19, <b>Lit review due</b>	Howe 1986
13	<b>Apr. 10</b>	<b>PS 4 due</b>	Burde and Linden 2013
14	<b>Apr. 17</b>	Madrian 2014	List 2007, <b>Research draft due</b>
15	<b>Apr. 24</b>	Fredriksson et al. 2011	Presentations
16	<b>May 1</b>	Presentations	Presentations

### Reading details

Abasolo and Tsuchiya, 2004 “Exploring social welfare functions and violation of monotonicity: an example from inequalities in health”

Boardman, 2010 Cost-Benefit Analysis, Pearson. Saddle River, NJ.

Burde and Linden, 2013 “Bringing education to Afghan girls: a randomized controlled trial of village-based schools”

Darby et al., 2008 “Decomposing local: a conjoint analysis of locally produced foods”

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

Fredriksson et al., 2011 “Are politicians office or policy motivated? The case of U.S. governors’ environmental policies”

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”

Jensen, 2010 “Information, efficiency, and welfare in agricultural markets”

Kremer et al., 2011 “Spring cleaning: rural water impacts, valuation, and property rights institutions”

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

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

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"