

88-220: Policy Analysis I

Fall 2010

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Course Time / Location: MW 14:30 - 15:50; Room 2051

Office Hours: MW 10-12 and 4-5

In general, I have an open door policy: if my door is open and I'm not meeting with someone, you are welcome to come in and meet with me. **If my door is closed, I am not available** (out of the office, working, etc). I highly encourage you to **set up an appointment** to make sure I will be around.

Required Texts:

- *Microeconomics and Behavior* by Frank

Course Description and Goals

“Policy” deals primarily with how to obtain “desirable” outcomes. This course attempts to develop an understanding of how societal outcomes arise and what can be done to influence them, with the goal of creating more desirable outcomes. In order to develop this understanding, it is important to know how societies and individuals make choices and end up at one set of outcomes instead of others. It is also useful to understand how we can evaluate one outcome as more desirable than another. For this, it is useful to be familiar with theories of social and individual behavior such as economics, decision science, psychology, political science, and sociology.

This course is designed to introduce you to tools from social science, in particular particular microeconomics, to better understand policy decisions and outcomes, and to understand the likely impact of different kinds of policies. The tools you will develop include knowing

how people's incentives are likely to determine their behavior, how a society should determine where resources get allocated, and how aggregated groups of people - such as markets and firms - function (or fail to). We will also explore what types of mistakes people commonly make when deciding and how these mistakes might lead to suboptimal social and individual outcomes. Therefore, a large part of the course will consist of learning and using tools for policy analysis, and applying these tools to actual policy issues and decisions. At the end of the semester, you will be better skilled at analyzing and comprehending policy decisions and the resulting outcomes. You will also improve your ability to understand how incentives, rules, and institutions come together to determine individual and social behavior. This should also improve your ability to analyze your and others' decisions in the context of pursuing your personal goals (i.e., implementing your personal "policies").

The primary tool used in this course is rational choice and microeconomics, which provides a very simple theory of how people make decisions and how the decisions of several individuals can be aggregated to determine outcomes in large institutions such as firms, markets, and societies. Microeconomics is a valuable tool for policy analysis mainly because it provides a single unified theory that can be used to analyze and predict many social and individual behaviors and outcomes. However, there are many ways in which this approach is flawed as a policy tool. We will therefore spend a significant amount of time focusing on alternative approaches, including "behavioral economics," which attempts to improve economics as a policy tool by incorporating other disciplines such as psychology or sociology.

Attendance and participation

It is easy to take the attitude that your job (and mine) is accomplished with your mastery of the material of the course, and consequently that I need not bother with whether you show up for class. Realistically, we know that in general the vast majority of students who feel they don't need to come to class are mistaken, but only find that out, to their shock, as they do poorly on exams. I will expect you in class and I expect you on time. This not an "easy" course and a large part of the lecture material will not come from the text. The exams will cover both sets of material.

I will occasionally take attendance in lecture as well as give unannounced quizzes. I will also make an effort to get to know you. It is also fair to say that those who sit near the front and participate in class will get the benefit of the doubt when their grades are below a borderline.

Cell phones and laptops

I understand that many of you will use a laptop to take notes during the lecture. This is fine. I am also willing to bet that many of you will check your email, the news, etc. This is **not** fine.

I also ask that you **turn off your cell phone during class**. If there is an emergency and you might need to be contacted, please talk to me before class. Otherwise there should

be no reason to hear a phone ring or see someone send a text.

Course Logistics

This course has a blackboard website, which should be set up and functioning. Handouts, updated syllabi and announcements will be posted there and you are responsible for checking the site regularly.

I hope you will meet with me during the semester, especially if you have questions about the course material. I welcome questions during class: if you have a question or a comment, please let me know. I will generally pause after each slide and ask if there are any questions – please feel encouraged to raise questions during class. I hope you will feel free to raise questions if you are confused or want me to talk more about some topic.

Grades

I strongly encourage you to review the University's policies regarding academic honesty. To put it simply, my policy is that cheating of any kind will not be tolerated. If you have any question, please feel free to ask me. A good online source for the academic integrity policy is: http://www.studentaffairs.cmu.edu/theword/acad_standards/integrity.html

Each student's grade for the course will be based on the following:

1. *Homework / quizzes* 20%
2. *Midterm exam 1* 20%
3. *Midterm exam 2* 20%
4. *Comprehensive final exam* 20%
5. *Participation* 20%

Two points regarding homework/quizzes: (1) your lowest score will be dropped when calculating your final grade. (2) to drop your second lowest score, you may bring in an article from a major news outlet (e.g., the New York Times) **within one week and with a $\frac{1}{2}$ to $\frac{3}{4}$ of a page of discussion points relating it to a current theme of the course.** You should email the article and your write-up to me as well as bring hard copy to class.

Throughout the semester I might give unannounced quizzes. These will probably be short and not intended to be tricky. If you are absent from class, you will not be allowed to make up the quiz. I will not accept late, or emailed, homework. Since the lowest scores will be dropped I will have a zero tolerance for late assignments.

In general, try to figure things out on your own first. Visit Blackboard – I've set up a discussion board for the class. Any question you might ask me, you should ask there first,

unless it is of a personal nature. I am happy to help, but you'll learn the most by trying to solve problems on your own first. You will also learn a lot by trying to explain things to others. Therefore part of your participation grade will come from your **responses** to questions asked on the Blackboard discussion board.

Weekly readings and course outline

Class	Date	Topic	Reading	Assignment
1	23-Aug	Introduction	Chapter 1	
2	25-Aug	Theory of Rational Choice	Chapter 1	
3	30-Aug	Theory of Rational Choice	Chapter 1	HW 1 Due
4	1-Sep	Research day		
5	6-Sep	Allocating resources	Chapter 2	Topics due
6	8-Sep	Allocating resources	Chapter 2	
	13-Sep	Eid Al-Fitr		
7	15-Sep	Choice and welfare	Chapter 3	HW 2 Due
8	20-Sep	Choice and welfare	Chapter 4	
9	22-Sep	Choice and welfare	Chapter 5	HW 3 Due
10	27-Sep	Midterm 1		
11	29-Sep	Incomplete information	Chapter 6	
12	4-Oct	Incomplete information	Chapter 6	
13	6-Oct	Incomplete information	Handout	HW 4 Due
14	11-Oct	Externalities	Chapter 16	
15	13-Oct	Externalities	Chapter 16	
16	18-Oct	Externalities	Handout	HW 5 Due
17	20-Oct	Public Goods	Chapter 17	
18	25-Oct	Public Goods	Chapter 17	
19	27-Oct	Public Goods	Handout	HW 6 Due
20	1-Nov	Midterm 2		
21	3-Nov	Behavioral Economics & Public Policy	Chapter 8	
22	8-Nov	Behavioral Economics & Public Policy	Chapter 8	
24	10-Nov	Behavioral Economics & Public Policy	Handout	
25	15-Nov	Behavioral Economics & Public Policy	Handout	
	17-Nov	Eid Al-Adha		
26	22-Nov	Efficiency and Rights	Okun	
27	24-Nov	Efficiency and Rights	Okun	
28	29-Nov	Efficiency and Rights	Okun	HW 8 Due
29	1-Dec	Last day of class / Review		