



Goldman School of Public Policy
University of California, Berkeley

PP210A: The Economics of Public Policy Analysis, Fall 2019
Professor Hilary Hoynes, hoynes@berkeley.edu

Objective -- The purpose of this course is to train MPP students to use microeconomic theory to analyze public policy problems. We will be studying a wide range of topics, including (but not limited to) the basic functioning of markets, the analysis of decision making of individuals and households, inter-temporal decision making, and decision making under uncertainty. Throughout the semester, we will place particular emphasis on the application of theory to real public policy problems. Some of the applications we will discuss are the issues underlying the Consumer Price Index, the structure of the food stamps program, the Earned Income Tax Credit, and cost-benefit analysis of criminal justice policy. A major objective of this course is to provide the bridge between abstract theory and real-world problems. Hence, the course will place heavy emphasis on applications.

Meeting Time/Place– M/W 10:10-12:00, GSPP 250

In addition, there are discussion sections on Fridays where material presented during the week will be reviewed.

Instructor Office Hours– Tuesday 3:00-5:00 in Room 345 GSPP (new building). Best to reach me at hoynes@berkeley.edu.

Course Web Site– <https://bCourses.berkeley.edu>. There you will find the syllabus, lecture notes (powerpoint), course readings and handouts.

Course Grade– The final grade will be based on 3 exams (25 percent each) and 6 problems sets (worth a cumulative 25 percent). Problem sets will be handed out in class and are due a week later (or when noted on the syllabus). Late problem sets are docked 20 percentage points per day. While you will not be docked for incorrect answers on problem sets, the problem sets will provide important practice for the exams. Hence, I urge everyone to do their best and hand them in on time.

Readings – There are two textbooks and a group of additional readings that I am posting on the course webpage. The first textbook is Friedman, Lee S. (2002), *The Microeconomics of Public Policy Analysis*, Princeton University Press. The second textbook is the fourth edition of Perloff, Jeffrey M (2013) *Microeconomics: Theory and Applications with Calculus*, Pearson Press. Either the third or fourth edition of this textbook are fine. Both the Friedman text as well as the Perloff text are available in the campus bookstore; access to one of the texts may be sufficient.

Nearly every microeconomics textbook covers the topics we will talk about in class, so feel free to use an alternative textbook that uses calculus – e.g, *Introduction to Economic Analysis* by Preston McAfee (free online, legally)

The rest of the team -- The GSI's are Tom Lindman (tlindman@berkeley.edu) and Ragav Raghunathan (raghavraghunathan@berkeley.edu). The tutor is Hye-Sun Kim (hyesun_kim@berkeley.edu). This course covers some challenging material and her services are primarily for those who, though making use of the available resources (professor and GSI office hours, etc.), still feel the need for additional help.

Week 1: Overview, Supply and Demand Specifying Individual Preferences	
August 26	NO CLASS
August 28 <i>CLASS MEETING 1</i>	<p><i>Overview of Microeconomic Theory and Microeconomic Policy Analysis, Supply and Demand</i></p> <p>MPPA: Chapters 1, 2 Perloff: Chapter 1, Chapter 2 pp 9-28, pp 47-52 (2.1-2.4, 2.7-2.8)</p> <p><u>Optional Reading / Application:</u> Uncertain Hour Season 3 Episode 3 Sentencing (around minute 30), interview with Peter Reuter about effectiveness of policies around D vs S of drugs.</p>
Week 2: Demand and Supply Continued and Introduction to Constrained Choice	
September 2	HOLIDAY NO CLASS
September 4 <i>CLASS MEETING 2</i>	<p><i>Demand and Supply Continued, Preferences and individual decision-making</i></p> <p>MPPA: Chapter 3, pp. 36-45 Perloff: Chapter 3, pp 60-83. (3.1-3.4)</p> <p><u>Optional Readings / application:</u> Benzaquen, Mercy "How Food in Venezuela Went From Subsidized to Scarce," July 16, 2017 Neuman, William April 20, 2012, "With Venezuelan Food Shortages Some Blame Price Controls," <i>The New York Times</i>, Gupta, Girish April 16, 2015, "Price Controls and Scarcity Force Venezuelans to Turn to the Black Market for Milk and Toilet Paper," <i>The Guardian</i>.</p> <p>HAND OUT PROBLEM SET #1</p>
Week 3: Constrained Optimization Continued	
September 9 <i>CLASS MEETING 3</i>	<p><i>Optimization</i></p> <p>MPPA: Chapter 3, Appendix pp. 69-75. Perloff: Chapter 3, pp 83-89 (3.4)</p>
September 11 <i>CLASS MEETING 4</i>	<p><i>Optimization (continued)</i></p> <p>Readings, same as Sept 9</p> <p>PROBLEM SET #1 DUE IN CLASS</p>

Week 4: Income and Substitution Effects	
September 16 <i>CLASS MEETING 5</i>	<p><i>Income Effects, Substitution Effects, and Consumer Demand</i></p> <p>Perloff: Chapter 4 (4.1-4.4)</p> <p><u>Optional Readings / application</u> Johnson, David S. et. al (2006), "Price Measurement in the United States: A decade after the Boskin Report," <i>Monthly Labor Review</i>, May 10-19. Boskin, Michael et al (1998). "Consumer Prices, the Consumer Price Index and the Cost of Living," <i>Journal of Economic Perspectives</i>. OMB Request for comment on changing CPI for measuring poverty thresholds.</p> <p>HAND OUT PROBLEM SET #2</p>
September 18 <i>CLASS MEETING 6</i>	<p><i>Cross Price Effects and Demand Elasticities</i></p> <p>Perloff: Chapter 2 pp 29-40 (2.5) MPPA: Ch 4 Appendix pp. 121-123</p>
Week 5: Tax Incidence and Midterm Exam	
September 23 <i>CLASS MEETING 7</i>	<p><i>Tax Incidence</i></p> <p>Perloff: Chapter 2, pp 41-47. (2.6)</p> <p><u>Optional Readings / application</u> Cawley, John and David Frisvold (2018). "The Pass-Through of Taxes on Sugar-Sweetened Beverages to Retail Prices: The Case of Berkeley, California," <i>Journal of Policy Analysis and Management</i>. Grogger, Jeffrey (2017), "Soda Taxes and the Prices of Sodas and Other Drinks: Evidence from Mexico," <i>American Journal of Agricultural Economics</i>, 99(2). Rothstein, Jesse (2010). "Is the EITC as Good as an NIT? Conditional Cash Transfers and Tax Incidence," <i>AEJ Policy</i></p>
September 25 <i>CLASS MEETING 8</i>	<p>Review for first midterm exam PROBLEM SET #2 DUE</p>
September 27	*****FIRST MIDTERM EXAM DURING SECTION*****
Week 6: Efficiency and Analysis of the SNAP/Food Stamps Program	
September 30 <i>CLASS MEETING 9</i>	<p><i>Efficiency</i></p>

	<p>MPPA: pp 45-57 Perloff: Chapter 10 (10.2) pp. 334-339</p> <p>HAND OUT PROBLEM SET #3</p>
<p>October 2</p> <p><i>CLASS MEETING 10</i></p>	<p><i>Inkind Transfers; Modeling the Food Stamp Program</i></p> <p>MPPA: Chapter 4, pp 81-107 Perloff: Chapter 5 pp. 156-160 (5.3)</p> <p><u>Optional Readings / application:</u> Hoynes, Hilary W. and Diane Whitmore Schanzenbach (2009), “Consumption Responses to In-Kind Transfers: Evidence from the Introduction of the Food Stamps Program,” <i>American Economic Journal: Applied Economics</i>, 1(4): 109-139. Hoynes, Hilary (2016). “The Supplemental Nutrition Assistance Program: A central component of the social safety net,” IRLE Policy Brief, UC Berkeley, May 2016.</p>
Week 7: Theory of Time Allocation and Income Support Programs	
<p>October 7</p> <p><i>CLASS MEETING 11</i></p>	<p><i>The Theory of Time Allocation: The Labor-Leisure Choice</i></p> <p>MPPA: Chapter 4, pp 107-113 Perloff: Chapter 5 pp 160-172 (Section 5.4)</p>
<p>October 9</p> <p><i>CLASS MEETING 12</i></p>	CLASS CANCELED DUE TO POWER OUTAGE
Week 8: Income Support Programs & Earned Income Tax Credit	
<p>October 14</p> <p><i>CLASS MEETING 13</i></p>	<p><i>Taxes, Income Transfers and Labor Supply</i></p> <p>MPPA: Chapter 4, pp 107-113</p> <p><u>Optional Readings / applications</u> Hoynes, Hilary and Jesse Rothstein (2019). “Universal Basic Income in the US and Advanced Countries,” Annual Review of Economics. <i>Welfare and Politics of Poverty</i>, NYT’s short documentary here.</p> <p>HAND OUT (SHORTENED) PROBLEM SET #4</p>

<p>October 16</p> <p><i>CLASS MEETING 14</i></p>	<p><i>The Earned Income Tax Credit</i></p> <p>MPPA: Chapter 4, pp. 107-113</p> <p><u>Optional Readings / applications</u> Hoynes, Hilary (2019). “The Earned Income Tax Credit,” <i>Annals of the American Academy of Political and Social Science</i>. Saez, Emanuel (2010). “Do Taxpayers Bunch at Kink Points?” <i>AEJ Policy</i>.</p> <p>PROBLEM SET #3 DUE – EXTENSION DUE TO POWER OUTAGE</p>
<p>Week 9: Intergovernmental Grants</p>	
<p>October 21</p> <p><i>CLASS MEETING 15</i></p>	<p><i>Intergovernmental Grants, Welfare Reform</i></p> <p>[On BCourses] Gruber Ch 10 MPPA: Chapter 5, pp. 135-146</p> <p><u>Optional Readings / applications</u> Schott, Liz; Pavetti, LaDonna and Ife Floyd (2019), “How States Use Federal and State Funds Under the TANF Block Grant,” Center on Budget and Policy Priorities, Washington D.C. Hoynes, Hilary (2016) “Strengthening Temporary Assistance for Needy Families,” The Hamilton Project.</p>
<p>October 23</p> <p><i>CLASS MEETING 16</i></p>	<p>Review for second midterm exam PROBLEM SET #4 DUE IN CLASS</p>
<p>October 25</p>	<p>*****SECOND MIDTERM DURING SECTION*****</p>
<p>Week 10: Equity Concepts in Policy Analysis & Intergovernmental Grants</p>	
<p>October 28</p> <p><i>CLASS MEETING 17</i></p>	<p>CLASS CANCELED DUE TO POWER OUTAGE</p>

<p>October 30</p> <p><i>CLASS MEETING 18</i></p>	<p><i>Equity concepts, Application of Equity and Grants to School Finance</i></p> <p>MPPA: Chapter 5, pp. 124-135, 146-160</p> <p><u>Optional Readings / Applications</u> LaFortune, Julian, Jesse Rothstein and Diane Schanzenbach (2018) “School Finance Reform and the Distribution of Student Achievement,” <i>AEJ Applied Economics</i>. Baicker, Katherine and Nora Gordon (2006), “The Effect of Mandated State Education Spending on Total Local Resources,” <i>Journal of Public Economics</i></p>
<p>Week 11: Relative Efficiency and Consumer Welfare</p>	
<p>November 4</p> <p><i>CLASS MEETING 19</i></p>	<p><i>The Compensation Principle of Relative Efficiency</i></p> <p>MPPA: Chapter 6, pp. 169-179</p> <p>HAND OUT PROBLEM SET #5</p>
<p>November 6</p> <p><i>CLASS MEETING 20</i></p>	<p><i>Measuring Benefits and Costs: Market Statistics and Consumer Surplus</i></p> <p>MPPA: Chapter 6, pp. 179-198 Perloff: Chapter 5 pp. 142-149 (5.1)</p>
<p>Week 12: Consumer Welfare (cont)</p>	
<p>November 11</p>	<p>Administrative Holiday; No Class</p>
<p>November 13</p> <p><i>CLASS MEETING 21</i></p>	<p><i>Compensating and Equivalent Variation</i></p> <p>MPPA: Chapter 6, pp. 198-210 Perloff: Chapter 5 pp 149-156 (5.2)</p> <p><u>Optional Readings / applications</u> Carson, Richard T. (2012), “Contingent Valuation: A Practical Alternative When Prices Aren’t Available,” <i>Journal of Economic Perspectives</i> 26(4): 27-42. Diamond, Peter A. and Jerry A. Hausman (1994), “Contingent Valuation: Is Some Number Better than No Number?” <i>Journal of Economic Perspectives</i>, 8(4): 45-64. Cawley, John. “Contingent Valuation Analysis of Willingness to Pay to Reduce Childhood Obesity.” <i>Economics and Human Biology</i>, July 2008, 6(2): 281-292.</p>

Week 13: The Economics of Uncertainty	
November 18 <i>CLASS MEETING 22</i>	<i>Choice in Uncertain Situations</i> MPPA: Chapter 7, pp. 223-235 Perloff: Chapter 16
November 20 <i>CLASS MEETING 23</i>	<i>Risk Pooling, Risk Spreading and Alternative Models of Decision-Making Under Uncertainty</i> MPPA: Chapter 7, pp 235-254 Perloff Ch 16 PROBLEM SET #5 DUE IN CLASS HAND OUT PROBLEM SET #6
Week 14: Economics of Information (Moral Hazard)	
November 25 <i>CLASS MEETING 24</i>	<i>The Economics of Information: Moral Hazard, and application to Health Policy</i> MPPA: Chapter 7, pp. 254-260 <u>Optional reading / application</u> Life, Death And The Lazarus Drug: Confronting America's Opioid Crisis , Hidden Brain Podcast June 24, 2019. Finkelstein et al (2012) “The Oregon Health Insurance Experiment: Evidence From The First Year,” <i>Quarterly Journal of Economics</i> Shigeoka, Hitoshi (2014). “The Effect of Patient Cost Sharing on Utilization, Health, and Risk Protection,” <i>American Economic Review</i> .
November 27	NO CLASS – Thanksgiving holiday
Week 15: Intertemporal Choice	
December 2 <i>CLASS MEETING 25</i>	<i>Intertemporal Decision-making and Discounting</i> MPPA: Chapter 8 Perloff: Chapter 15 pp 543 - 554 (section 15.2)
December 4 <i>CLASS MEETING 26</i>	Review for final PROBLEM SET #6 DUE IN CLASS
December 9	Final Exam During Class Time

CROSSWALK BETWEEN PERLOFF EDITION 4 AND PERLOFF EDITION 3

Class meeting	Perloff 4 th Edition	Perloff 3 rd Edition
1	Chapter 1, Chapter 2 pp 9-28, pp 47-52 (2.1-2.4, 2.7-2.8)	Chapter 1 all and Chapter 2 pp 9-28 and pp 45-52
2	Chapter 3, pp 60-83. (3.1-3.4)	Chapter 3, pp 58-81
3	Chapter 3, pp 83-89 (3.4)	Calculus appendix pp E1-E21, Chapter 3, pp. 81-86.
4		
5	Chapter 4 (4.1-4.4)	Chapter 4
6	Chapter 2 pp 29-40 (2.5)	Chapter 2 pp 28-39
7	Chapter 2, pp 41-47. (2.6)	Chapter 2, pp 39-45
8		
9	Chapter 10 pp. 334-339 (10.2)	
10	Chapter 5 pp. 156-160 (5.3)	
11	Chapter 5 pp 160-172 (5.4)	Chapter 5 pp 157 – 168.
12		
13		
14		
15		
16		
17		
18	Chapter 5 pp 142-149 (5.1)	Chapter 5 pp 137 – 152
19	Chapter 5 pp 149-156 (5.2)	Chapter 5 pp 137 – 152
20	Chapter 16	Chapter 16
21		
22	Chapter 18	Chapter 18
23	Chapter 19	Chapter 19
24	Chapter 15 pp 543 – 554	Chapter 15 pp 539 – 549
25		
26		