

**PUBL 6417 Microeconomic Analysis
Section: 24770**

Thursday 5:30–8:30 PM, AH 201
University of Houston
Masters of Public Administration Program
Spring 2012

Instructor

Ling Zhu
Assistant Professor
Department of Political Science
Email: lzhu4@central.uh.edu
Office: PGH 436
Phone: 713-743-3890
Office Hours: T/Th 3:00-5:00pm, or by appointment.

Teaching Assistant

Andrea Eckelman
Email: akeckelman@gmail.com
Office: PGH 426
Office Hours: W 4-5:30pm, or by appointment.

Overview

The purpose of this course is to familiarize students with the basic concepts, models, and methods of economic theory concerning individual and organizational behavior. In this course, we focus on the economic way of thinking for public managers, administrators, and more generally, pivotal actors in the process of public policymaking. Microeconomics in general, are designed to account for the behavioral foundation of decision-making in the real world. Therefore, the emphasis will be on linking the theoretical rigor and policy applications. Through the semester, we will cover four sections of topics: (1) incentives and individual choices, (2) rational organizational behavior, (3) the economic rationale of public policymaking, and (4) the political economy of domestic and international markets. Students who are interested in this course should fulfill the prerequisites, PUBL 6410 and PUBL 6411, or equivalent.

Learning Objectives

1. To become familiar with economic approaches to public resource allocation.

2. To understand the conceptual foundations for problem analysis in the context of public policymaking.
3. To understand the conceptual foundations for solution analysis in the context of public policymaking.
4. To become familiar with applying the key principles of economics to real world policy applications.

Required Readings

1. Weimer, David L. and Aidan R. Vining. 2011. *Policy Analysis*, 5th edition, Longman. (Hereafter, WV 2011.)
2. O'Sullivan, Arthur, Steven M. Sheffrin, and Stephen J. Perez. 2011. *Microeconomics: Principles, Applications, and Tools*, 7th edition, Prentice Hall. (Hereafter, OSP 2011.)
3. Additional readings listed for weekly topics. All additional readings can be accessed through the Blackboard Vista, <http://www.uh.edu/blackboard>.

Course Requirements

1. Class attendance and regular participation in class discussion.
2. Read the assigned readings prior to each class meeting.
3. Weekly discussion notes. Each student is required to submit one discussion note on each week's readings. Discussion notes are due by Wednesday at noon (via the Blackboard Vista assignment drop-box) each week that the class meets. All the discussion notes should be the most important questions or arguments that the student has identified based on the assigned readings. They will help to foster in-class discussion and will be shared at the beginning of each class meeting. DO NOT write more than 120 words in one discussion note.
4. Two open-book problem sets.
5. Research paper. Students are expected to write a 20-25 page research paper. In this research paper assignment, students are to analyze the cause or effect of a public policy using the models and concepts learned in this course. When composing the research paper, students should follow the Chicago Manual of Style, <http://www.chicagomanualofstyle.org/home.html>. Students should submit their final papers to <http://www.turnitin.com>.
6. Mini-Conference. We will hold a mini-conference during our class meeting on Week 15 (April 26). Each student will have 20 minutes to present his or her research paper to the class and to draw feedback from the audience.

Attendance and Late Policy

1. Attendance. Absence from the class will only be accepted in extenuating circumstances with a university-accepted excuse. If you know in prior that you cannot attend the class, please inform me before the scheduled class-meeting.
2. Late Policy. Late work will be penalized by one letter grade. E.g. an A-paper turned in one day late will become a B-paper. Late work would only be accepted with university-accepted excuses without penalty.

Grading

1. Participation (discussion notes and attendance), 10%
2. Three problem sets, 15% for each.
3. Research paper, 50%
4. Mini-conference presentation, 10%

5. Final Grades

A = 100-95 (Excellent)

A- = 94-90

B+ = 89-87 (Good)

B = 86-84

B- = 83-80 (Poor)

C+ = 79-77

C = 76-74

C- = 73-70

D+ = 69-67

D = 66-64

D- = 63-60

F = 59-0 (Failing)

Academic Integrity

As commonly defined, presenting the words or works of others' as your own is plagiarism. Plagiarism is one of the worst academic sins, for the plagiarist destroys the trust among colleagues, without which research cannot be safely communicated. Plagiarism is also a violation of the UH Academic Honesty Policy. If you are uncertain of what constitute academic dishonesty, you should contact me prior to submitting the assignment and/or check the UH Academic Honesty Policy from the university website: www.uh.edu/provost/policies/uhhonestypolicy.html. Students are expected to adhere to the UH Academic Honesty Policy. Cheating or plagiarism in course assignments, exams, and the final paper will lead to a grade of F.

Americans with Disability Act (ADA)

The Americans with Disabilities Act (ADA) is a federal anti-discrimination statute that provides comprehensive civil rights protection for persons with disabilities. Among other things, this legislation requires that all students with disabilities be guaranteed a learning environment that provides for reasonable accommodation of their disabilities. If you believe you need special accommodations and assistance due to a disability, please contact the Center for Students with DisABILITIES (CSD Building 568, Room 110) and the Learning Support Services (LSS, 321 Social Work Building), or call 713-743-5411 to make appropriate arrangements.

Course Schedule

Week 1 (Jan. 19): Course Overview

- Overview of the syllabus and course requirements.
- Causality and the Microeconomic Approach
- Readings (optional):
 - Rubin, Donald B. 1990. “On the Application of Probability Theory to Agricultural Experiments: Essay on Principles.” *Statistical Science* 5(4): 472-480.
 - Heckman, James J. 2005. “The Scientific Model of Causality.” in *Sociological Methodology*, vol. 35, pp.1-97.
 - Morton, Rebecca B. and Kenneth C. William. 2010. *Experimental Political Science and the Study of Causality: from Nature to the Lab*, New York, NY: Cambridge University Press, Chapter 2 (2.3.1 and 2.3.2), Chapter 3, and Chapter 6 (6.1- 6.4).

Part 1: Incentives, Motivations, and Individual Choices

Week 2 (Jan. 26): Key Principles and the Utility Theory

- Readings
 - OPS 2011, Chapter 1, 2, 4 and 7.
 - WV 2011, Chapter 1, 2, and 3.
 - Downs, Anthony. 1957. “An Economic Theory of Political Action in A Democracy.” *The Journal of Political Economy* 65(2):135-150.
 - Gramlich, Edward M. and Daniel L. Rubinfeld.1982.“Micro Estimates of Public Spending Demand Functions and Tests of the Tiebout and Median-Voter Hypothesis.” *Journal of Political Economy* 90(3): 536-560.
 - Haughwout, Andrew. 2004. “Local Revenue Hills: Evidence from Four U.S. Cities.” *The Review of Economics and Statistics* 86(2): 570-585.

- Posnett, John ad Stephen Jan. 1996. “Indirect Cost in Economic Evaluation.” *Health Economics* 5(1):13-23.
- Schoemaker, Paul J. H. 1982. “The Expected Utility Model: Its Variants, Purposes, Evidence, and Limitations.” *Journal of Economic Literature* 20(2):529-63.

Week 3 (Feb. 2): Efficiency and the Competitive Market

- Readings
 - OPS 2011, Chapter 6 and 9.
 - WV 2011, Chapter 4.
 - Akerlof, George. 1970. “The Market for Lemons,” *Quarterly Journal of Economics* 84(3):488-500.
 - Arrow, Kenneth J. 1963. “Uncertainty and the Welfare Economics of Medical Care.” *American Economic Review* 53(5):941-973.
 - Darby, Michael R. and Edi Karni. 1973. “Free Competition and the Optimal Amount of Fraud.” *Journal of Law and Economics* 16(1):67-88.
 - Klein, Benjamin and Keith B. Leffler. 1981. “The Role of Market Forces in Assuring Contractual Performance.” *Journal of Political Economy* 89(4):615-641.
 - Weintraub, E. Roy. 1983. “On the Existence of a Competitive Equilibrium: 1930-1954.” *Journal of Economic Literature* 21(1): 1-39.

Week 4 (Feb.9): Market Failures

- Readings
 - OPS 2011, Chapter 10, 11, 12, 13, and 14.
 - WV 2011, Chapter 5 and 6.
 - Bailey, Michael and Mark C. Rom. 2004. “A Wider Race? Interstate Competition Across Health and Welfare Reform.” *Journal of Politics* 66(2):326-347.
 - Coase, Robald. 1960. “The Problem of Social Cost.” *Journal of Law and Economics* 3(1):1-44.
 - Ostrom, Elinor. 1990. *Governing the Commons: the Evolution of Institutions for Collective Action*. New York, NY: Cambridge University Press, Chapter 1, 2, and 3.
 - Ostrom, Elinor et al. 1999. “Revisiting the Commons: Local Lessons, Global Challenges.” *Science* 284 (April): 278-282.
 - Robinson, Kenneth. 1986. “Maximizing the Public Benefits of the AT&T Breakup.” *Journal of Policy Analysis and Management* 5(3):572-597.
 - Smith, V. Kerry and Ju-Chin Huang. 1995. “Can Markets Value Air Quality? A Meta Analysis of Hedonic Property Value Models.” *Journal of Political Economy* 1(Feb.)209-227.

- Karsier, Thomas. 1985. “Unions and Monopoly Profits.” *Review of Economic and Statistics* 67(1):34-42.
- Research paper deadline (optional): 1-2 page introduction due.

Part 2: Organizational Behavior

Week 5 (Feb. 16): Organizational Compliance

- Readings
 - WV 2011, Chapter 13
 - Brehm, John and Scotte Gates. 1997. *Working, Shirking, and Sabotage: Bureaucratic Response to a Democratic Public*, Ann Arbor, MI: Michigan University Press, Chapter 1, 2, and 3.
 - Calvert, Randall L., Mathew D. McCubbins, and Barry R. Weingast. 1998. “A Theory of Political Control and Agency Discretion.” *American Journal of Political Science*, 33(3): 588-611.
 - Jackson, Matthew O. 2002. “The Evolution of Social and Economic Networks.” *Journal of Economic Theory* 106:265-295.
 - Ting, Michael M. 2003. “A Strategic Theory of Bureaucratic Redundancy.” *American Journal of Political Science*, 47(2):274-292.
- Distributing Problem Set 1.

Week 6 (Feb. 23): Organizational Learning

- Readings
 - Calvert, Randall L. 1998. “Explaining Social Order: Internalization, External Enforcement, or Equilibrium?” In Karol Soltan, Eric Uslaner, and Virginia Haufler, eds., *Institutions and Social Order*. Ann Arbor, MI: University of Michigan Press, p.131- 162.
 - Levitt, Barbara and James G. March. 1988. “Organizational Learning.” *Annual Reviews of Sociology* 14: 319-340.
 - March, James G. and Johan Olsen. 1989. *Rediscovering Institutions: The Organizational Basis of Politics*, Chapter 2.
 - March, James G. 1991. “Exploration and Exploitation in Organizational Learning.” *Organizational Science* 2(1): 71-87.
 - North, Douglass C. 1990. *Institutions, Institutional Change, and Economic Performance*, New York, NY: Cambridge University Press, Chapter 1, 2, 3, 9, 10, and 11.
 - Simon, Herbert A. 1991. “Bounded Rationality and Organizational Learning.” *Organizational Science*, 2(1):125-134.

Part 3: Economic Rationales and Public Policymaking

Week 7 (March 1): Redistributive Policy and Equity

- Readings
 - OPS 2011, Chapter 14, 15, and 16.
 - WV 2011, Chapter 7
 - Cusack, Thomas, Torben Iversen, and Philipp Rehm. 2011. “Risk at Work: the Demand and Supply Sides of Government Redistribution.” *Oxford Review of Economic Policy* 22(3): 365-389.
 - Fong, Christina. 2001. “Social Preferences, Self-Interests, and the Demand for Redistribution.” *Journal of Public Economics* 82: 225-246.
 - Meltzer, Allen H. and Scott F. Richard. 1981. “A Rational Theory of the Size of Government.” *Journal of Political Economy* 89(5):914-927.
 - Miller, Gary and Terry Moe. 1983. “Bureaucrats, Legislators, and the Size of Government. *American Political Science Review* 77(2):297-322.
 - Moene, Karle Ove and Michael Wallerstein. 2001. “Inequality, Social Insurance, and Redistribution.” *American Political Science Review* 95(4):859-847.
- Guest Speaker: Tim Reeskens, University of Leuven (Belgium), “Preferences for Redistribution Across European Welfare States.”
- Problem Set 1 Due at noon, on Blackboard.
- Research paper deadline (optional): 3-4 page research design due.

Week 8 (March 8): Heterogeneous Policy Responses

- Readings
 - OPS 2011, Chapter 5.
 - Arrow, Kenneth J. 1982. “Risk Perception in Psychology and Economics.” *Economic Inquiry* 20(1): 1-9.
 - Blau, Peter M. “ A Formal Theory of Differentiation in Organizations.” *American Sociological Review* 35(2): 201-218.
 - Gastwirth, Joseph L. 1972. “The Estimation of the Lorenz Curve and Gini Index.” *The Review of Economics and Statistics* 54(3):306-316.
 - McKelvey, Richard D.1976. “Intransitivities in Multidimensional Voting Models and Some Implications for Agenda Control.” *Journal of Economic Theory* 12(3):472-482.
 - Heckman, James J. 2001. “Microdata, Heterogeneity and the Evaluation of Public Policy.” *Journal of Political Economy* 109(4): 673-748.
 - Meier, Kenneth J. 1999. “Drugs, Sex, Rock and Roll: A Theory of Morality Politics.” *Policy Studies Journal* 27(4):681-695.

Week 9 (March 15): Spring Break.

Week 10 (March 22): Diffusion and Policy Adoption

- Readings
 - WV 2011, Chapter 11.
 - Balla, Steven J. 2001. “Interstate Professional Associations and the Diffusion of Policy Innovations.” *American Politics Research* 29(3):221-245.
 - Berry, Frances S. and William D. Berry. 1992. “Tax Innovation in the States: Capitalizing on Political Opportunity.” *American Journal of Political Science* 36(3):715-742.
 - Cameron, Charles and Nolan McCarty. 2004. “Models of Vetoes and Veto Bargaining.” *Annual Review of Political Science* 7: 409-435.
 - Minstrom, Michael and Sandra Vergari. 1998. “Policy Networks and Innovation Diffusion: the Case of State Education Reforms.” *Journal of Politics* 60(1):126-148.
 - Pierson, Paul. 2004. “Dependence, Increasing Returns, and the Study of Politics.” *American Political Science Review* 94(2):251-267.
 - Shipan, Charles R. and Craig Volden. 2008. “The Mechanisms of Policy Diffusion.” *American Journal of Political Science* 52(4): 840-857.
 - Volden, Craig, Michael Ting, and Daniel P. Carpenter. 2008. “A Formal Model of Learning and Policy Diffusion.” *American Political Science Review* 102(3): 319-332.

Week 11 (March 29): Policy Implementation and Evaluation

- Readings
 - WV 2011, Chapter 12, 14, and 16.
 - Daniels, Mark R. 1997. “Symposium: Public Policy and Organizational Termination.” *International Journal of Public Administration* 20(12): 2043-2066.
 - Elmore, Richard E. 1979-1980. “Backward Mapping: Implementation Research and Policy Design.” *Political Science Quarterly* 94(4): 601-616.
 - Jo, Jinhee and Laurence S. Rothenberg. 2012. “Rational Incompetence.” *Journal of Theoretical Politics* 24(1):3-18.
 - Thompson, Fred and L.R. Jones. 1986. “Controllership in the Public Sector.” *Journal of Policy Analysis and Management* 5(3): 547-571.
 - Volden, Craig. 2002. “Delegating Power to Bureaucracies: Evidence from the States.” *Journal of Law, Economics, and Organizations* 18(1): 187-220.

Week 12 (April 5): Government Failures

- Readings
 - OPS 2011, Chapter 15 and 16.

- WV 2011, Chapter 8 and 9.
- Aidt, Toke S. “Economic Analysis of Corruption: A Survey.” *The Economic Journal* 113(491): F623-F651.
- Amit, Raphael and Paul J.H. Schoemaker. 1993. “Strategic Assets and Organizational Rent.” *Strategic Management Journal* 14(1): 33-36.
- Bo, Ernesto Dal. 2006. “Regulatory Capture: A Review.” *Oxford Review of Economic Policy* 22(2): 203-225.
- Krueger, Anne. 1974. “The Political Economy of the Rent-Seeking Society.” *American Economic Review* 64 (3): 291-303.
- Lohmann, Susanne. 2003. “Why Do Institutions Matter? An Audience-Cost Theory of Institutional Commitment.” *Governance* 16(1): 95-110.
- Miller, Gary. 2000. “Above Politics: Credible Commitment and Efficiency in the Design of Public Agencies.” *Journal of Public Administration Research and Theory* 10(2): 289-328.
- North, Douglass C. 1993. “Institutions and Credible Commitment.” *Journal of Institutional and Theoretical Economics* 149(3): 11-23.
- Distributing Problem Set 2.
- Research Paper Deadline (optional): preliminary analysis due.

Part 4: The Political Economy of Domestic and International Markets

Week 13 (April 12): The Labor Market, Income, and Social Policy

- Readings
 - OPS 2011, Chapter 17 and 18.
 - Borjas, George. 1999. “Immigration and Welfare Magnets,” *Journal of Labor Economics* 17(4):607-637.
 - Fuest, Clemens and Marcel Thum. 2000. “Welfare Effects of Immigration in a Dual Labor Market.” *Regional Science and Urban Economics* 30(5): 551-563.
 - Iversen, Torben and David Soskice. 2001. “An Asset Theory of Social Policy Preferences.” *American Political Science Review* 95(4): 875-893.
 - Lipsmeyer, Christine S. and Ling Zhu. 2011. “Immigration, Globalization, and Unemployment Benefits in Developed EU States.” *American Journal of Political Science* 55(3): 647-664.

Week 14 (April 19): International Trade and Public Policy

- Readings
 - OPS 2011, Chapter 19.
 - Basinger, Scott J. and Mark Hallerberg. 2004. “Remodeling the Competition for Capital: How Domestic Politics Erases the Race to the Bottom.” *American Political Science Review* 98(2):261-276.

- Espinola-Arredondo, Ana and Felix Munoz-Garcia. 2009, “Free-riding in International Environmental Agreements: A Signaling Approach to Non-Enforceable Treaties.” *Journal of Theoretical Politics* 23(1): 111-134.
- Jahn, Detlef. 2006. “Globalization as ‘Galton’s Problem’: the Missing Link in the Diffusion Patterns in Welfare State Development.” *International Organizations* 60(2):401-431.
- Krings, Torben. 2009. “A Race to the Bottom? Trade Unions, EU Enlargement and the Free Movement of Labour.” *European Journal of Industrial Relations* 15(1): 49-69.
- Starke, Peter, Herbert Obinger, and Francis G. Castles. 2008. “Convergence Toward Where: in What Ways, If Any, Are Welfare States Becoming More Similar?” *Journal of European Public Policy* 15(7): 143-179.
- Problem Set 2 Due at noon, on Blackboard.

Week 15 (April 26): Wrap-Up and Mini-Conference

Week 16 (May 3): Revising research paper, no class meeting.

Week 17 (May 10): Research paper due at noon, on Blackboard.

Caveat

The aforementioned weekly schedule and assignments in this course may be subjective to change.