

Course Topics

- (1) Introduction to the Field of Microeconomic Policy Analysis, Planning, and Policy/ Program Evaluation
  - (a) Comparisons of macroeconomic and microeconomic policy analysis, planning, and evaluation functions; some interrelationships between macro and micro-policy analysis and planning models
  - (b) Alternative microeconomic activities of the public sector; improving the allocation of scarce productive resources and market efficiency: market regulation and de-regulation activities; provision of goods and services to the public; public sector investments; providing transfers of income and in-kind benefits to workers, households, firms, and regional/local governments. The scope of government expenditures in various countries around the world; time trends in these public expenditure shares
  - (c) A review of the range of economic problems encountered by public sector policymakers, managers, and planners in carrying out these alternative activities and allocating scarce public sector resources for the provision of goods, services, investments, and transfers
  - (d) The role of the economist in developing tools and techniques for use in public sector policymaking, program planning, program implementation, and program or project evaluations
  - (e) The use of microeconomic policy research models, production and consumption externality models, demand simulation models, willingness to pay models, objective functions, program cost functions, social and economic experimentation, program outcome and impact evaluations, cost effectiveness analysis, linear programming models, and benefit-cost analysis
  - (f) The strengths and limitations of alternative policymaking, planning and evaluation tools and techniques
  - (g) An introduction to benefit-cost and its applications to government programs
  
- (2) The Case for and Against Government Intervention in Market Activities; Types and Uses of Micro-Economic Efficiency Concepts and Measures; The Competitive Market As a Benchmark for Judging Allocative Efficiency; Alternative Market Failure Problems and Their Causes; Public Policies for Intervening in Markets to Improve Allocative Efficiency; Efficiency and Equity Considerations in Market Interventions
  - (a) The case for and against government intervention in markets; efficiency and equity objectives of these public interventions; potential conflicts between efficiency and equity goals; government policy failures
  - (b) Price and output determination in competitive product market settings; desirable characteristics of competitive output levels and prices from a resource allocation perspective; alternative economic efficiency concepts; technical, allocative, and Pareto efficiency; the exclusion principle; private versus social benefits and costs
  - (c) Defining market failures; alternative types of market failures; the economic problems associated with market failures; critiques of market failures, public policy failures; the nature, causes, and consequences of market failure; excess transaction costs, information gaps in labor and product markets, production and consumption externalities, pure public

- goods and quasi-public goods, excess market power and their implications for public policymaking
- (d) Alternative types of government interventions for improving the efficiency of market operations; advantages and disadvantages of alternative types of interventions; cost effectiveness of alternative market interventions and regulation regimes
  - (e) The role of information in labor markets, case studies of the economics of information and job search/labor market information/wage subsidy/bonus programs to improve labor market efficiency and reduce the costs of public income transfers
  - (f) Corruption and organized crime as examples of excess transaction costs; measures of corruption, estimating the micro and macro consequences of government corruption; case studies of the economic impacts of corruption and neighborhood crime
- (3) The Microeconomics of Production Externalities, the Economics of the Environment
- (a) Defining production externalities, alternative types of production externalities and their economic consequences
  - (b) Measuring production externalities and amenity externalities; alternative methods for externality measurement and program evaluation; comparison neighborhoods/work sites, hedonic pricing models, contingent valuation or willingness to pay models
  - (c) Measuring the economic benefits and costs of environmental programs and policies; case studies of environmental benefit and cost measurement
- (4) The Economics of Regulation and De-Regulation of Private Economic Activity; Case Studies of Airline and Other Deregulation Activities; the Economics and Politics of Privatization Activities; Case Studies of the Privatization of Government Enterprises and Government Services
- (a) The economic rationale for regulation and de-regulation of economic activity; changing views of economists on the desirability of regulation and de-regulation of key industries over the past two decades, including banking, transportation, housing mortgages, and utilities
  - (b) Evaluating the economic benefits and costs of de-regulation; case studies of the airline industry, trucking, and other transportation and telecommunications industry in the U.S. and other countries; identifying the gainers and losers from de-regulation
  - (c) The economic and political case for privatization of selected government activities and functions; the potential benefits and costs of privatization; measuring the impacts of micro-privatization efforts, advantages and disadvantages of alternative privatization activities
  - (d) Case studies of privatization efforts in the U.S. and other nations
- (5) The Public Policymaking Process; the Rational Policymaking Model; Policy Analysis and Evaluation Tools and Techniques; the Role of Social Experimentation in Public Policymaking; Case Studies of Social/Economic Experiments in the U.S., Canada, and other Countries
- (a) The formulation of public policy in the real world and alternative policymaking models; the major components of the rational public policymaking process
  - (b) The role of the economist in the policymaking and evaluation process; microeconomic analysis and the policy research function
  - (c) Alternative types of policy and program evaluations; their roles, uses, inter-relationships and limitations

- (d) The use of cost effectiveness analysis and benefit-cost analysis in planning and evaluating government programs and policies
  - (e) The design and use of social/economic experiments for testing out new public policies and program designs; major uses of social experiments in designing public policies; strengths and limitations of social experiments
  - (f) Case studies of social experiments; evaluating the impacts, benefits, and costs of social experiments; interpreting findings for future policymaking and planning
- (6) Establishing Goals and Objectives for Government Programs; Issues in Constructing Objective Functions; Cost Effectiveness Analysis and Its Application
- (a) The establishment of goals and objectives for public sector programs; the selection of performance measures and standards and other proxies for objective attainment; methodological issues in measuring objective attainment
  - (b) The construction of objective functions for public sector programs; the incorporation of multiple objectives into the decision making process; how to derive weights for use in planning programs with multiple objectives; specification of objective functions
  - (c) The rationale for cost effectiveness analysis; the theoretical framework of cost effectiveness analysis; the existence of constrained maximization and minimization problems in the public sector
  - (d) Techniques for conducting cost effectiveness analysis
  - (e) Applications of cost effectiveness analysis in the criminal justice, education, environmental, employment and training, and health fields
  - (f) The potential use of linear programming techniques in allocating scarce public resources among alternative uses; case studies of linear programming
- (7) An Introduction to Benefit-Cost Theory and Analysis and Its Uses in Program Planning and Evaluation
- (a) The need for benefit-cost analysis in the public sector; the basic theoretical features of the benefit-cost model; economic welfare underpinnings of benefit-cost analysis
  - (b) Preconditions for the use of benefit-cost analysis in planning and evaluating public sector programs
  - (c) Alternative benefit and cost concepts and measures; the choice of a perspective or vantage point from which to conduct the analysis; private, social, taxpayer, and government budget perspectives
  - (d) The measurement of social benefits: the need to measure direct and indirect benefits, intangible benefits and spillover benefits, the need to sometimes assign shadow prices to the costs and the impacts of programs; the role of consumer and producer surplus calculations
  - (e) The measurement of social and private costs; the problems of joint cost measures, spillover costs, the need for shadow pricing inputs at times
  - (f) The role and use of discount rates and time horizons in estimating the present value of benefits and costs; the selection of appropriate discount rates
  - (g) Present value calculations; benefit-cost ratios, net benefits, internal rates of return; and benefit-cost decisionmaking rules; maximizing net benefits as a decision rule
  - (h) The case for and against incorporation of income distribution effects into benefit-cost analysis; methods for including income distribution effects into B – C analysis
  - (i) Strengths and limitations of benefit-cost methodologies for public policymaking and program planning

- (8) Applications of Benefit-Cost Analysis of Government Programs and Projects
- (a) Benefit-cost analysis of economic development projects in industrialized and developing nations
  - (b) Applications of benefit-cost analysis in the human resources area; benefit-cost evaluations of education and job training programs
  - (c) Benefit-cost analysis of environmental programs
  - (d) Benefit-cost analysis of transportation and infrastructure projects
  - (e) Benefit-cost analysis of crime prevention and criminal justice control programs

Reading List for the Course

There is one required text for this course. The title, author, and publisher of this text are listed below. Many of the course readings will be available in a comprehensive course readings package available from Gnomon Copy on Huntington Avenue. **Readings marked by an asterisk (\*) can be purchased in a separate package from Sheila Palma in 315 Holmes Hall.** Feature handouts and short readings will be provided by the instructor in class.

**Text:**

Edward M. Gramlich, A Guide to Benefit-Cost Analysis, University of Michigan, Second Edition.

**Section I: Introduction to Microeconomic Analysis for Policymaking, Policy Analysis, and Program Planning and Evaluation in the Public Sector; Alternative Microeconomic Functions of the Public Sector**

- (1) \*Robin Boadway and David Wildasin, Public Sector Economics, pp. 1-9.
- (2) Edward M. Gramlich, A Guide to Benefit-Cost Analysis, Chapter 1 and pp. 25-29
- (3) \*Edith Stokey and Richard Zeckhauser, A Primer for Policy Analysis, Ch. 1, Ch. 15.
- (4) \*David Nachmias, "Public Policy Evaluation: An Overview".
- (5) \*Henry Levin, Cost Effectiveness: A Primer
- (6) Edward M. Gramlich, A Guide to Benefit-Cost Analysis, Chapter 1 and pp. 25-29
- (7) Robert Frank, "Why is Cost-Benefit Analysis So Controversial?", in Cost/Benefit Analysis: Legal and Economic Perspectives.
- (8) \*Robert Boruch, "The Virtues of Randomness," Education Next, Fall 2002
- (9) \*Iain Chalmers, "Trying to Do More Good Than Harm in Policy and Practice...", The Annals of the American Academy of Political and Social Sciences.
- (10) \*Jonathan Crane, Building on Success, Chapter 1.
- (11) James S. Kemple, Career Academies: Long Term Impacts on Labor Market Outcomes.

**Section II: The Case for Government Interventions in Market Activities; Public Policy Interventions to Improve Market Efficiency; Economics of Market Failure; Government Programs to Improve Information for Workers and Migrants; Economics of Organized Crime and Corruption**

- (1) \*Thomas Palm and Abdul Qayum, Private and Public Investment Analysis, Ch. 1.
- (2) \*Edith Stokey and Richard Zeckhauser, A Primer for Policy Analysis, Ch. 14.
- (3) Edward M. Gramlich, A Guide to Benefit-Cost Analysis, Chapter 2, pp. 9-25.
- (4) \*Steinemann, Apgar, and Brown, Microeconomics for Public Decisions, pp. 192-203.
- (5) \*Jay Bhatlacharya, "Public Health: Dollars to Doughnuts," Hoover Institution, 2007.
- (6) Jishnu Das, Jeffrey Hammes, "The Quality of Medical Advice in Low Income Countries".
- (7) Richard D. Leone and Michael F. Eeley, An Evaluation of the Immediate Effects of Project BEST, selected pages.

- (8) Stephen Woodbury and Robert Spiegelman, "Bonuses to Workers and Employers to Reduce Unemployment".
- (9) Minnesota Job Service, "Re-Employment Minnesota: Overview of Impacts and Costs".
- (10) \*Philip K. Robins, "Summary and Policy Implications," Re-employment Bonuses in the Unemployment Insurance System, Chapter 8, 2002.
- (11) Robert Quaercia and Jonathan Spader, "Does Homeownership Counseling Affect Pre-Payment and Default Behavior"
- (12) Paulo Mauro, Corruption and Economic Growth, World Bank, reprint.
- (13) \*Robert Barro, Determinants of Economic Growth, pp. 8-35
- (14) \*William Easterly, "Corruption and Growth" in The Elusive Quest for Growth, Ch.12.
- (15) Ray Fisman, and Edward Miguel, "Cultures of Corruption: Evidence from Diplomatic Parking Tickets."

Section III: Economic Analysis of Production Externalities; Measuring the Size of Production Externalities; Potential Benefits of Environmental Programs, Case Studies of Environmental Problems and Programs

- (1) Edward Gramlich, A Guide to Benefit-Cost Analysis, pp. 135-138; 210-219.
- (2) \* "Assessing Benefits for Environmental Decision Making."
- (3) \*Richard Zerbe and Dwight Dively, Benefit-Cost Analysis In Theory and Practice, Chapter 5, pp. 70-80.
- (4) Allen Kneese, "Environmental Economics", in Rcherche Economique, pp. 467-482.
- (5) Katherine Kiel and Katherine McCain, "The Effect of the Incinerator Siting on Housing Appreciation Rates".
- (6) David Norris, "The Impact of School Quality and Race on Neighborhood Housing Values, Northeastern University Dissertation Paper.
- (7) \*S. Gerking and L. Stanley, "An Economic Analysis of Air Pollution and Health: The Case of St. Louis," in Environmental Economics, A Reader.
- (8) \*Jonathan Leape, "The London Congestion Change," Journal of Economic Perspectives, Fall 2006.
- (9) Robert Weisberg, "The Problem of Polling".
- (10) W. Michael Hanemann, "Valuing the Environment Through Contingent Valuation" Journal of Economic Perspectives, Fall 1994, pp. 19-43.
- (11) Jennifer Janisch, "Contingent Valuation of Western Land Restoration".
- (12) Jennifer Clifford, "A Contingent Valuation Study of the Environmental Services of the Miyor Reservoir in China."
- (13) Anna Alberini and Tsu-Tan Fu, "Valuing Health Effects of Air Pollution in Developing Countries: The Case of Taiwan".
- (14) \*Seung-Hoon Yoo and Kyung Chase, "Measuring the Economic Benefits of the Ozone Pollution Control Policy in Seoul," Urban Studies, Vol. 38, No. 1, 2003.
- (15) \*Ayodele Jimoh, et al, "Quantifying the Economic Burden of Malaria in Nigeria Using the Willingness to Pay Approach," in Cost Effectiveness and Resource Allocation, May 2007.
- (16) \*Bo Chen, et al, "Assessing the Willingness of the Public to Pay to Conserve Green Space in Hang Zhou City, China," Journal of Environmental Health, 2006.
- (17) \*Kenshi Itaoka, Alan Krupnick, et al, "Age, Health, and the Willingness to Pay for Mortality Risk Reductions," September 2005.
- (18) Jerry Carlino and Ed Coulson, "Should Cities Be Ready for Some Football", 2003.

Section IV: The Economics of Regulation and De-Regulation of Economic Activity; Case Studies of the Economic Effects of De-Regulation; the Economics of Privatization and Consequence of Privatization

- (1) Clifford Winston, "U.S. Industry Adjustment to Economic Deregulation", Journal of Economic Perspectives, Summer 1998.
- (2) James Peoples, "Deregulation and the Labor Market," Journal of Economic Perspectives, Summer 1998.
- (3) \*John D. Donahue, The Privatization Decision, Ch. 4, "The Evidence on Efficiency".
- (4) U.S. General Accounting Office, "Results of Private Management on Public School Education".
- (5) Paul Peterson, et al, "Test Score Effects of School Vouchers in Dayton, New York City, and Washington, D.C.", 2001
- (6) Nancy Nicosia, Competitive Contracting in the Mass Transit Industry: Cases and Consequences, 2003.

Section V: Public Policymaking Models and Program Evaluation; Social Experimentation and Impact Evaluation; Case Studies of Economic Experimentation

- (1) \*Edith Stokey and Richard Zeckhauser, A Primer for Policy Analysis, Ch. 3., "The Model of Choice".
- (2) \*Ferber and Hirsch, Social Experimentation and Economic Policy, Ch. 1, part of Ch. 2.
- (3) Andrew Hahn, An Evaluation of the QUOP Program: Did the Program Work?
- (4) Andrew Sum, Memo on the JTPA Evaluation
- (5) Edward Gramlich, A Guide to Benefit-Cost Analysis, pp. 159-169.
- (6) Social Research and Demonstration Corporation, The Canadian Self-Sufficiency Project: Findings on Program Impacts and Costs.
- (7) Lindsey Leininger and Ariel Kalil, "Cognitive and Non-Cognitive Predictors of Success in Adult Education Programs".
- (8) \*Arthur J. Reynolds, "The Chicago Child-Parent Center and Expansion Program," in Social Programs that Work.
- (9) John Burghardt and Peter Schechet, Does Job Corps Work? Executive Summary, 2002.
- (10) James Riccio, "Jobs-Plus: A Promising Strategy for Increasing Employment and Self-Sufficiency Among Public Housing Residents."

Section VI: Government Objectives Functions, the Decisionmaking Model, Cost Effectiveness Analysis, and Case Studies of Cost Effectiveness

- (1) Henry Levin, Cost Effectiveness: A Primer, Chapter 4.
- (2) \*James T. Hamilton and Kip Viscusi, "How Costly is Clean Air? Analysis of the Benefits and Costs of Super Fund Site Remediation", Journal of Policy Analysis and Management.
- (3) \*David Cutler, "Your Money or Your Life," Chapter 2.
- (4) L. Kristin Newby, et al, "Cost Effectiveness of Early Discharge After Uncomplicated Acute Myocardial Infarction", The New England Journal of Medicine, March 2000.
- (5) Edward Gramlich, A Guide to Benefit-Cost Analysis, pp. 197-209.
- (6) K.L. Nichol, et al, "The Efficacy and Cost Effectiveness of Vaccinations Against Influenza Among Elderly Persons Living in the Community," The New England Journal of Medicine.
- (7) Tracy A. Lieu, et al, "Cost-effectiveness of a Routine Varicella Vaccination Program for US Children, Journal of American Medical Association.

Section VII: Introduction to Benefit-Cost Analysis; Getting Started in Benefit-Cost Analysis; Measuring the Benefits and Costs of Proposed Projects and Programs; the Potential Role for Shadow Prices; the Use of Discount Rates and Time Horizons; Benefit-Cost Decision Rules

- (1) Edward M. Gramlich, A Guide to Benefit-Cost Analysis, Ch. 3, 4, 6, 13.
- (2) \*Richard Zerbe and Dwight Dively, "Government Uses of Benefit-Cost Analysis".
- (3) \*Robert Frank, "Why Is Cost-Benefit, Analysis So Controversial?" in Cost Benefit Analysis, Legal and Economic Perspectives.
- (4) Frederick W. Gramlich, "The Demand for Clean Water: The Case of the Charles River," National Tax Journal.
- (5) \*C.H. Helmers, "Social Benefit-Cost Analysis in Practice, Chapter 10.
- (6) Giuffre, Haughton, and Tuerck, "Free But Costly: An Economic Analysis of a Wind Farm in Nantucket Sound," 2005, pp. 1-25.
- (7) Quiang Wu, "Application of Technological Control Measures on Vehicle Pollution: A Cost-Benefit Analysis in China," 2006.
- (8) \*Clive Belfield, Milagros Nores, et al., "The High Scope Perry Preschool Program: A Cost Benefit Analysis at Age 40," Journal of Human Resources, Volume 41, No. 1, 2006.