

Public Policy 251
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Fall 2021
Monday 2-4
Room: 355 GSPP

MICROECONOMIC ORGANIZATION AND POLICY ANALYSIS

I. OBJECTIVES

This seminar is designed to enhance skills in conducting public policy analyses of alternative institutional structures based on microeconomic theories. Institutional structure refers generally to the process used for deciding economic allocations: the framework, rules, or governing mechanisms under which economic transactions take place. What processes determine demand, and what processes determine supply? It includes the applicable laws of property and contract, regulations and regulatory bodies, rules affecting government or nonprofit participation as a producer or consumer, and the cultural norms of the society. The analyses are typically of institutional changes for specific sectors of an economy, like alternative state regulatory methods for the telecommunications industry, or alternative processes for distributing food to the nation's food banks, or whether or not a school district should contract out for educational services to its students, or whether a water pollution tax should replace technical standards. The course assumes that its students are already schooled in graduate microeconomic theory and familiar with the difficulties that market institutions have in addressing important equity objectives and problems of inefficiency due to varied sources of market failures. The choice of institutional reforms to remedy these problems is our subject.

The readings stimulate thought along a number of dimensions important to the evaluation of institutional alternatives that arise in actual policy decisions. In the context of specific policy cases, we will examine analyses that involve traditional market failure problems like collective demand for public goods, and more recently recognized problems due to bounded consumer and firm rationality. We also consider institutional alternatives motivated by important equity considerations like improved racial and gender justice or increased food security. Some of these problems include or focus upon how well the sector performs over time, e.g. does it learn, does it adapt well to changing circumstances, and does it generate and utilize innovations well. We examine these problems with consideration of a broad range of possible institutional responses, including reliance upon non-market organizations (bureaus, regulatory agencies, and non-profits). Each student will undertake a significant analysis of institutional alternatives in a policy area of his or her choice.

II. REQUIREMENTS

There are two course requirements:

- A. Satisfactory class participation.
- B. One written assignment.

This seminar will meet in person at the scheduled time and place. Satisfactory class participation requires regular attendance, reading of assigned materials in advance of class discussion, participating in class discussion, and occasional responsibility for leading class discussion. This will count for 20% of the course grade. All students will receive an “A” for participation unless they have some noticeable deficiency (e.g. unexcused absences, failure to have read the assigned materials, no comments offered during discussion).

This syllabus may always be found on the Home Page for the course website in bCourses. All reading assignments shown below may be accessed through links given on the bCourses website. The links are in the “Pages” section of the website, where each page corresponds to one week of the syllabus. In addition, almost all readings can be accessed through the University’s library system. (Go to UC Library Search and use the Journal Search feature, picking the online source that covers the year of the article.) A few readings are only available directly through the “Pages” section of our bCourses website. You may download the readings (giving you offline access and annotation ability).

The written assignment is to design and evaluate at least two institutional alternatives for organizing the resource allocation decision process in any policy area of your choice. One of the alternatives considered should be the status quo. One of your evaluative criteria should be economic efficiency (even if your problem is primarily motivated by an equity objective).

You should submit via email a one-page description of your topic for approval by September 27, or sooner if possible. The page should (a) include one paragraph that states the central problem you wish to consider and *at least two policy alternatives*. You should also (b) describe data and information sources to serve as the basis for your analysis, and (c) include a beginning bibliography of academic literature that you expect to be helpful in guiding your analysis. A valuable tool for finding this literature is the [EconLit database](#) available through the UC Berkeley library databases—it searches all journal articles in economics by any word phrase, or topic; can be specified for any time period; and can be restricted to any subset of journals. [Google Scholar](#) can also be valuable as a search tool for information and analyses of specific policies, and for finding some of the newest working papers on a particular topic. With both databases, care and experience are very helpful in identifying the highest quality articles.

Each student will choose some class time to discuss the topic and present her or his work in progress. Each student will do this twice: once early in the semester, to discuss the substantive problem and analytic approaches to it, and once later on, to discuss the student’s completed first-cut of the analysis (this need not be in written form). The feedback from the later session should be used to revise the analysis before submitting the final version.

The written assignment is due on or before December 6. As a rough guideline to length, I would expect most papers to be 15-20 pages (double-spaced). Primary emphasis in grading will be on the treatment of efficiency consequences (again, this need not be the primary motivation for the policy). The paper can be a complete policy analysis; it can also be thought of as one piece of a planned larger analysis (e.g. your Spring APA). I am looking primarily for you to demonstrate substantial insight about the relationship between institutional structure and efficiency in the context of your chosen topic.

READING LIST AND SCHEDULE

I. INTRODUCTION

WEEK 1: August 30 *Organizing for Progress: Framework with Education and Health Care Examples*

Friedman, L., “Public Institutional Structure and Resource Allocation: The Analysis of Adjustment,” in J. Crecine, ed., Research in Public Policy and Management, Vol. II Jai Press, Inc. (Greenwich, CT: 1981), pp. 303-325 (available on course website).

Murnane, Richard J. and Nelson, Richard R., “Improving the Performance of the Education Sector: The Valuable, Challenging, and Limited Role of Random Assignment Evaluations,” Economics of Innovation and New Technology, 16:5, July 2007, pp. 307-322 (available online through UC Library Search).

Kremer, Michael, “Experimentation, Innovation and Economics,” The American Economic Review (AER), 110, No. 7, July 2020, pp. 1974-1994.

WEEK 2: September 13 *Incentives and Privatization as Policies (Applications: Prisons, Infrastructure, Food Banks, Medical Care)*

Hart, Oliver, Andrei Shleifer, and Robert Vishny, “The Proper Scope of Government: Theory and an Application to Prisons,” Quarterly Journal of Economics, 112(4), November 1997, pp. 1127-1161 (available online through UC Library Search).

Boardman, Anthony and Aidan Vining, “The Political Economy of Public-Private Partnerships and Analysis of their Social Value,” Annals of Public and Cooperative Economics, 83(2), June 2012, pp. 117-141 (available online through UC Library Search Wiley Online Library with last word of journal miswritten as “Economy”).

Sean Lewis-Faupel et al, “Can Electronic Procurement Improve Infrastructure Provision? Evidence from Public Works in India and Indonesia,” American Economic Journal: Economic Policy (AEJ:EP), 8, No. 3, 2016, pp. 258-283 (available online through UC Library Search).

Canice Prendergast, “How Food Banks Use Markets to Feed the Poor,” Journal of Economic Perspectives (JEP), 31, No. 4, Fall 2017, pp. 145-162 (available online through UC Library Search).

Nikhil Agarwal et al, “Market Failure in Kidney Exchange,” AER, 109, No. 11, November 2019, pp. 4026-4070.

II. COLLECTIVE MECHANISMS OF DEMAND ARTICULATION

A. *Collective Purchase Mechanisms (“Full” Delegation of Individual Consumer Authority)*

WEEK 3: September 20 (Applications: Governmental Data Collection, Financial Laws, Ecosystem Services)

Davis, D. and C. Holt, Experimental Economics, Princeton University Press, (Princeton, NJ:1993), pp. 317-350, 360-364, 376-379 (available on course website).

Bohm, P., "Revealing Demand for an Actual Public Good," Journal of Public Economics, 24:2, July 1984, pp. 135-151 (available online through UC Library Search ScienceDirect).

Dippel et al, “Secured Transaction Laws and Economic Development on American Indian Reservations,” American Economic Association (AEA) Papers and Proceedings, 111, 2021, pp. 248-252.

Alix-Garcia, Jennifer and Hendrik Wolff, “Payment for Ecosystem Services from Forests,” Annual Review of Resource Economics, 6, 2014, pp. 361-380 (available online through UC Library Search).

Chakrabarti et al, “Making Markets for Private Provision of Ecosystem Services: The Bobolink Project,” Ecosystem Services, 37, June 2019 (manuscript available on course website).

B. *Collective Information, Price, and Product Regulations (“Limited” Delegation of Individual Consumer Authority)*

WEEK 4: September 27 (Applications: Consumer Protection, Retirement Policy, Energy Policy, Health Policy)

Regulation to Improve Consumer Choices (Information and Price)

Sunstein, Cass, “Nudges.gov: Behaviorally Informed Regulation,” in E. Zamir and D. Teichman, Oxford Handbook of Behavioral Economics and the Law, Oxford University Press, 2014, Chapter 28.

Shlomo Benartzi and Richard Thaler, “Heuristics and Biases in Retirement Savings Behavior,” JEP, 21(3), Summer 2007, pp. 81-104 (available online through UC Library Search).

Fowlie, Meredith et al, “Default Effects and Follow-On Behavior: Evidence from an Electricity Pricing Program,” Energy Institute at Haas Working Paper 280, UC Berkeley, July 2020 (available online at b-course website).

Allcott, Hunt and Michael Greenstone, “Is There an Energy Efficiency Gap?”, JEP, 26(1), Winter 2012, pp. 3-28 (available online through UC Library Search).

Dai, Weijia and Michael Luca, “Digitizing Disclosure: The Case of Restaurant Hygiene Scores,” American Economic Journal: Microeconomics, 12, No. 2, 2020, pp. 41-59.

WEEK 5: October 4 (Applications: Urban Traffic Congestion, Climate Change, Air Pollution)

Regulation to Improve Quality

Green, C., J. Heywood and M. Navarro, “Traffic Accidents and the London Congestion Charge,” Journal of Public Economics, 133, 2016, pp. 11-22 (available online through UC Library Search).

Nordhaus, William, “Climate Clubs: Overcoming Free-riding in International Climate Policy,” AER, 105, No. 4, April 2015, pp. 1339-1370 (available online through UC Library Search).

Burtraw, Dallas et al, “Linking by Degrees,” Resources for the Future Discussion Paper DP-13-04, April 2013 (available on b-course website).

Joseph Shapiro and Reed Walker, “Where is Pollution Moving? Environmental Markets and Environmental Justice,” AEA Papers and Proceedings, 111, 2021, pp. 410-414.

Danae Hernandez-Cortes and Kyle Meng, “Do Environmental Markets Cause Environmental Injustice? Evidence from California’s Carbon Market, National Bureau of Economic Research (NBER) Working Paper 27205, May 2020.

WEEK 6 October 11 Student proposals

WEEK 7: October 18 Student proposals

WEEK 8: October 25 (Applications: Electricity, Hospitals, Water, Tech Titans)

Rate of Return Regulation, Incentive Regulation, and Reducing Monopoly Power

Friedman, L., “The Importance of Marginal Cost Electricity Pricing to the Success of Greenhouse Gas Reduction Programs,” Energy Policy, 39, No. 11, November 2011, pp. 7347-7360 (available online through UC Library Search).

Gupta, Atul, “Impacts of Performance Pay for Hospitals: The Readmissions Reduction Program,” AER, 111, No. 4, April 2021, pp. 1241-1283.

Grafton, R. et al, “An Integrated Assessment of Water Markets: A Cross-Country Comparison,” Review of Environmental Economics and Policy, 5, No. 2, Summer 2011, pp. 219-239 (available online through UC Library Search).

Joskow, P., “Challenges for Wholesale Electricity Markets with Intermittent Renewable Generation at Scale: the US Experience,” Oxford Review of Economic Policy, 35, No. 2, 2019, pp. 291-331.

Shapiro, C., “Protecting Competition in the American Economy: Merger Control, Tech Titans, Labor Markets,” JEP, 33(3), Summer 2019, pp. 69-93.

III. INSTITUTIONAL CHOICES OF SUPPLY

A. Government, Nonprofit, and Profit-Seeking Enterprises

WEEK 9: November 1 (Applications: Non-Profit Hospitals, Health Insurance, Schools, Colleges)

Hansmann, H., “The Role of Nonprofit Enterprise,” Yale Law Journal, April 1980, 89:5, pp. 835-901 (available through UC Library Search via JSTOR).

Morley, J., “For-Profit and Nonprofit Charter Schools: An Agency Costs Approach,” Yale Law Journal, 116, No. 7, May 2006, pp. 1782-1823 (available online through UC Library Search Hein).

Cohodes, S., E. Setren and C. Walters, “Can Successful Schools Replicate? Scaling Up Boston’s Charter School Sector,” AEJ:EP, 13, No. 1, 2021, pp. 138-167.

Jonathan Gruber, “Delivering Public Health Insurance Through Private Plan Choice in the United States,” JEP, 31, No. 4, Fall 2017, pp. 3-22 (available online through UC Library Search).

Cellini, Stephanie and Cory Koedel, “The Case for Limiting Federal Student Aid to For-Profit Colleges,” JPAM, 36, No. 4, Fall 2017, pp. 934-942.

B. Dynamic Considerations: Innovating, Adapting

WEEK 10 November 8 (Applications: Education, Criminal Justice)

Nelson, R., "Capitalism as an Engine of Progress," Research Policy, 19, No. 3, June 1990, pp. 193-214 (available online through UC Library Search Elsevier ScienceDirect Backfile).

Richard R. Nelson and Sidney G. Winter, “Evolutionary Theorizing in Economics,” JEP, 16(2), Spring 2002, pp. 23-46 (available online through UC Library Search).

Friedman, L., “Public Sector Innovations and Their Diffusion: Economic Tools and Managerial Tasks,” in A. Altshuler and R. Behn, Innovation in American Government, The Brookings Institution (Washington, DC: 1997), pp. 332-359 (available on course website).

Berman, P. and B. Nelson, "Replication: Adapt or Fail", in A. Altshuler and R. Behn, Innovation..., pp. 319-331 (available on course website).

Banerjee, A. et al, “Improving Police Performance in Rajasthan, India: Experimental Evidence on Incentives, Managerial Autonomy, and Training,” AEJ:EP, 13, No. 1, 2021, pp. 36-66.

WEEK 11: November 15 Student Presentations

WEEK 12: November 22 Student Presentations

WEEK 13: November 29 Student Presentations

WEEK 14: December 6 Papers Due