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 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 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. Some of these problems include or focus upon how well the sector generates and utilizes innovations, or simply performs better over time. 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.

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).

Online access to reading assignments usually requires UC identification. Those readings listed without a specific address can be accessed through the University’s library system. Usually the
The easiest way to find them is to go to the library’s “How to find articles” webpage and choose “Find ejournals by journal title” and pick the online source that covers the year of the article. You could alternatively choose “Find articles by citation” and then type in the citation information. A few readings are noted as available directly on our b-course website.

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 the evaluative criteria should be economic efficiency.

You should submit via email a one-page description of your topic for approval by September 30, 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, as well as 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 9. 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 (although 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.
READING LIST AND SCHEDULE

I. INTRODUCTION

WEEK 1: September 9 Organizing for Progress: Framework with Education Example


Strunk, Katharine, Andrew McEachin and Theresa Westover, “The Use and Efficacy of Capacity-Building Assistance for Low-Performing Districts: The Case of California’s District Assistance and Intervention Teams,” Journal of Policy Analysis and Management (JPAM), 33(3), Summer 2014, pp. 719-751 (available online through MELVYL Wiley Online Library).

WEEK 2: September 16 Incentives and Privatization as Policies (Applications: Prisons, Infrastructure, Food Banks, Medical Care)


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 MELVYL).


II. COLLECTIVE MECHANISMS OF DEMAND ARTICULATION

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

WEEK 3: September 23 (Applications: Governmental Data Collection, Environmental Quality, Local Public Goods, Ecosystem Services)


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


Regulation to Improve Consumer Choices (Information and Price)


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


**WEEK 5: October 7 (Applications: Climate Change, Energy Efficiency, Externality Taxes, Urban Traffic Congestion)**

*Regulation to Improve Quality*


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


**WEEK 6** October 14  Student proposals

**WEEK 7:** October 21  Student proposals

**WEEK 8:** October 28  (Applications: Electricity, Airports, Water, Tech Titans)


### III. INSTITUTIONAL CHOICES OF SUPPLY

#### A. Government, Nonprofit, and Profit-Seeking Enterprises

**WEEK 9: November 4 (Applications: Non-Profit Hospitals, Schools, Bus Service)**


WEEK 10: November 11 No Class--University Holiday

B. Dynamic Considerations: Innovating, Adapting

WEEK 11 November 18 (Applications: Energy, Education, Criminal Justice)


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

WEEK 12: November 25 Student Presentations

WEEK 13: December 2 Student Presentations

WEEK 14: December 9 Papers Due