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


WEEK 2: September 13 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 UC Library Search).

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)


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


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

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 UC Library Search).


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

*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 UC Library Search).


**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*


III. INSTITUTIONAL CHOICES OF SUPPLY

A. Government, Nonprofit, and Profit-Seeking Enterprises

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


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)


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


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