PAMP 8141: Microeconomics for Public Policy, Fall 2018
Andrew Young School of Policy Studies, Georgia State University

Fei Li feili@gsu.edu

Lecture: Thursday 4:30pm – 7:00pm, Classroom South 201
Office hours: Thursday 1:30 – 3pm, 55 Park Pl NE, 809

GTA: Vasylisa Badan vbadan1@student.gsu.edu
TA hours: Tuesday 3-4pm & Wednesday 5-6pm, 14 Marietta hub downstairs

The course syllabus provides a general plan for the course; deviations may be necessary.

COURSE DESCRIPTION AND OBJECTIVES
This course introduces microeconomic theory and its application in public management and policy analysis. We will start with the basics of supply and demand, price mechanisms, based on which we will discuss consumer and firm decisions in a perfectly competitive market. The second half of the course will cover different market forms and market failures, and use them to understand a wide range of public policy issues and government decisions, such as taxation, international trade, environmental regulations, and welfare.

The objectives for students taking this course are:
• to understand microeconomic concepts involved in public policy and management;
• to be able to use microeconomic reasoning and tools in the analysis of public policy problems, the evaluation of government programs, and managerial and policy decisions in your future work.

This course assumes no previous knowledge of economics, though it requires students to be familiar with basic algebra, especially fractions, graphs and solving linear equations. We will not have time to review mathematics in this course. You may use these online resources to strengthen and refresh your quantitative skills:
https://www.khanacademy.org/math/algebra-basics
https://www.khanacademy.org/math/algebra-basics/alg-basics-graphing-lines-and-slope
https://www.khanacademy.org/math/algebra-basics/alg-basics-systems-of-equations

TEXTBOOK
P. Krugman and R. Wells, Microeconomics (5th edition). Worth Publishers. (Referred to as KW)
A copy of the book will be available in the course reserve section of the library. You may use an older version, but please check for changes in contents, page numbers, etc.

COURSE WEBSITE
Readings, exercises and solutions that are not in the textbook will be available on iCollege. Please check your iCollege settings to make sure you can receive announcements and messages in your student email account.
COURSE REQUIREMENTS

Readings & Exercises (pre-class): Readings and exercises should be completed prior to the class for which they are assigned. Lectures will build upon the required readings, and the exercises will help you master the key concepts and prepare for the exams. Do not consult the answers before you try to solve the problems on your own (or in study groups).

Discussions: These are case studies or news articles on real life economic issues. Read them prior to the class for which they are assigned and apply economic reasoning to the issues described. Write down your answers to the accompanying questions and bring them to class. Your answers to these questions will form the basis of in-class discussion.

Assignments (post-class): Assignments are intended to reinforce learning and to provide timely feedback on your progress. They should be completed after each lecture and handed to the professor at the beginning of the next class. Please write legibly or type your answers, including your name. Late assignments will not be accepted.

Attendance: Attending each lecture and finishing the required work are essential for the learning of subsequent topics. Therefore, please make your best effort to arrive on time and participate in each class. Unexcused and/or excessive absences (including arriving late or leaving early) may affect up to 20% of your final grades.

Grading:
- Assignments and participation: 20%
- Quiz 1: 25%
- Quiz 2: 25%
- Final exam: 30%

All tests are closed-book and closed-notes. Bring your calculator and maybe a ruler with different colored pens/pencils for graphing. There will be no make-up quiz or exam.

Electronics
Please silence all cell phones and remove all headsets/earphones before class begins. Unless required under a Disability Accommodation Plan (see below), please do not use laptops or other screened electronic devices during class as they can be distracting for your classmates. You may take notes by hand or on a tablet, but any other use of the tablet (internet, texting, gaming, etc.) can be considered as disruptive behavior and grounds for dismissal.

Academic Integrity
High standards of intellectual and academic integrity will be enforced. GSU guidelines are posted at https://deanofstudents.gsu.edu/files/2017/09/Academic-Honesty-Policy.pdf and https://codeofconduct.gsu.edu/.

Specifically for this course:
- Assignments: Students are encouraged to work in study groups, but the final write up of assignments must be done individually with no sharing of written answers.
- Exams: All exams must be the sole work of the individual student.

Violations of these standards will result in all participating students failing the course and being remanded to the discipline committee for further action.
Course Evaluation
Your constructive assessment of this course plays an indispensable role in shaping education at Georgia State. Upon completing the course, please take time to fill out the online course evaluation.

Disability Accommodation
Students who wish to request accommodation for a disability may do so by registering with the Office of Disability Services. Students may only be accommodated upon issuance by the Office of Disability Services of a signed Accommodation Plan and are responsible for providing a copy of that plan to instructors of all classes in which an accommodation is sought.

The Office of Disability Services also offers free academic coaching and other services. To learn more go to disability.gsu.edu/services.

COURSE SCHEDULE

<table>
<thead>
<tr>
<th>Date</th>
<th>Topic</th>
<th>Assignment Due</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Aug 23</td>
<td>Introduction</td>
</tr>
<tr>
<td>2</td>
<td>Aug 30</td>
<td>Supply &amp; Demand</td>
</tr>
<tr>
<td>3</td>
<td>Sep 6</td>
<td>Surplus, Elasticity</td>
</tr>
<tr>
<td>4</td>
<td>Sep 13</td>
<td>Taxes, Price Controls</td>
</tr>
<tr>
<td>5</td>
<td>Sep 20</td>
<td>QUIZ 1, International Trade</td>
</tr>
<tr>
<td>6</td>
<td>Sep 27</td>
<td>Production and Cost I</td>
</tr>
<tr>
<td>7</td>
<td>Oct 4</td>
<td>Production and Cost II</td>
</tr>
<tr>
<td>8</td>
<td>Oct 11</td>
<td>Consumer Choice I</td>
</tr>
<tr>
<td>9</td>
<td>Oct 18</td>
<td>Consumer Choice II</td>
</tr>
<tr>
<td>10</td>
<td>Oct 25</td>
<td>QUIZ 2, Labor Markets</td>
</tr>
<tr>
<td>11</td>
<td>Nov 1</td>
<td>Imperfect Competition</td>
</tr>
<tr>
<td>12</td>
<td>Nov 8</td>
<td>Asymmetric Information</td>
</tr>
<tr>
<td>13</td>
<td>Nov 15</td>
<td>Public Goods, Externalities</td>
</tr>
<tr>
<td>14</td>
<td>Nov 22</td>
<td>THANKSGIVING BREAK</td>
</tr>
<tr>
<td>15</td>
<td>Dec 6</td>
<td>FINAL EXAM</td>
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Week 1: Introduction
An introduction to microeconomics and its basic concepts, principles and methods.
Keywords: scarcity, trade-offs, opportunity costs, marginal analysis, production possibility
frontiers, comparative advantage, gains from trade

Reading: KW Ch 1, 2 (including appendix)
Exercises: KW Check Your Understanding (CYU hereinafter) 1-1: Q1, Q2; CYU 2-1: Q1, Q2, Q3, Q4;
Discussion: Lean production (KW Business Case p. 44)
Assignment: KW Ch 1 Problems 3, 4; Ch 2 Problem 3

Week 2: Supply and Demand
The basic model of market and price determination under the assumption of perfect competition.
Keywords: demand, supply, shifts in demand/supply curves, markets and equilibrium

Reading: KW Ch 3.
Exercises: KW CYU 3-1: Q1; 3-2: Q1; 3-3: Q1; 3-4: Q1, Q2
Discussion: Uber (KW Business Case p. 94)
Assignment: Ch 3 Problems 1, 4, 6

Week 3: Consumer and Producer Surplus, Elasticity
Understanding the gains from trade graphically. Elasticity and its implications on price
dynamics, revenue and market efficiency.
Keywords: consumer, producer and total surplus; market efficiency; price, income and cross-
price elasticity of demand; price elasticity of supply

Reading: KW Ch 4, 6
Exercises: KW CYU 4-1: Q1; 4-2: Q1; 4-3: Q1, Q2; 6-1: Q3; 6-2: Q1; 6-3: Q2, Q3; 6-4: Q2
Discussion: Jay-Z and Beyoncé tickets (KW Business Case p. 123) w/ the additional question:
Explain what’s described in the article using the concept of elasticity (in both demand & supply). Hint: consider 1) the performance of a local band and 2) the album sales of Jay-Z and Beyoncé as comparisons.
Assignment: Ch 4 Problems 1, 2; Ch 6 Problems 1, 10, 11

Week 4: Price Controls and Taxation
Learn how policy interventions affect market prices and efficiency.
Keywords: price ceilings and floors, quota rent, tax incidence, deadweight loss

Reading: KW Ch 5, Ch 7 (up to p. 198)
Exercises: KW CYU 5-1: Q1, Q3; 5-2: Q1; 5-3: Q1, Q2; 7-1: Q1, Q4, Q5; 7-2: Q1, Q2
Discussion: Grocery tax (iCollege)
Venezuelan black market (iCollege)
Assignment: Ch 5 Problem 1, Ch 7 Problems 2, 6, 7
Week 5: International Trade
Review of comparative advantages, gains from international trade, and welfare effects of tariffs.
Keywords: comparative advantage, autarky, import/export, free trade, trade protection

Reading: KW Ch 8
Exercises: KW CYU 8-1: Q1; 8-2: Q1, Q2; 8-3: Q1, Q2; 8-4: Q1
Discussion: Trade protectionism (iCollege)
Assignment: Ch 8 Problems 1, 7, 12

Week 6: Production and Cost I
Decision making using marginal analysis; individual firms’ cost structures.
Keywords: marginal benefit, marginal cost, average total cost, average variable cost

Reading: KW Ch 9 (up to p. 260), Ch 11
Exercises: KW CYU 9-1: Q1, Q2; 9-2: Q1, Q2; 9-3: Q1; 11-1: Q1; 11-2: Q1; 11-3: Q1
Discussion: The production costs of oil (iCollege)
Assignment: Ch 9 Problems 1, 3, 9; Ch 11 Problems 2, 3, 4

Week 7: Production and Cost II
Profit maximization and the dynamics of the supply curve.
Keywords: short-run versus long-run costs, profit, optimal output, shutdown price, long-run equilibrium, returns to scale

Reading: KW Ch 11 (p. 339 onwards), Ch 12
Exercises: KW CYU 11-3: Q2, Q3; 12-1: Q1; 12-2: Q1, Q2; 12-3: Q1, Q2
Discussion: Bricks-and-mortar retailers vs. shopping apps (KW Business Case p. 373)
Assignment: Ch 12 Problems 3, 4, 5, 6, 10

Week 8: Consumer Choice I
How do rational consumers make choices?
Keywords: utility, budget constraints, indifference curves, optimal consumption bundle

Reading: KW Ch 10 (up to p. 287), Ch 10 Appendix (up to p. 312)
Exercises: KW CYU 10-1: Q2; 10-2: Q1; 10-3: Q1, Q2; Ch 10 Appendix Problem 3.
Discussion: Disappearing passenger cars (iCollege)
Assignment: Ch 10 Problems 3 & 4 (p. 292), Ch 10 Appendix Problems 8 & 9 (p. 320)

Week 9: Consumer Choice II
Price changes and the demand curve; applications of the utility maximization model
Keywords: income and substitution effects, normal, inferior and Giffen goods

Reading: KW Ch 10 (p.288 onwards), Ch 10 Appendix (p. 313 onwards), Ch 19 Appendix
Exercises: KW CYU 10-4: Q1, Q2; Ch 10 Appendix Problems 5 & 10
Discussion: McDonald’s (KW Business Case p. 291)
Assignment: Ch 10 Appendix Problems 11, 12, 16; Ch 19 Appendix Problem 1 (p. 570)
Week 10: Labor markets
Introduction to labor demand and supply
Keywords: marginal productivity, compensating differentials, discrimination, unemployment

Reading: KW Ch 19 (p. 538-544; p. 548 onwards)
Exercises: KW CYU 19-2: Q1, Q2; 19-4: Q1, Q2
Discussion: Magnetism of mid-sized cities (iCollege)
Assignment: Ch 19 Problems 2, 4, 6

Week 11: Imperfect competition
Different market structures and prices in monopolistic markets
Keywords: market power, monopoly, natural monopoly, marginal revenue, price discrimination

Reading: KW Ch 13, Ch 14 (up to p. 420).
Exercises: KW CYU 13-1: Q1, Q3; 13-2: Q1, Q2; 13-3: Q1, Q2; 13-4: Q1
Discussion: Bookseller vs. publisher (KW Business Case p. 408)
Assignment: Ch 13 Problems 1, 2, 9, 17

Week 12: Asymmetric information and incentives
Information asymmetry and its consequences in insurance, goods and labor markets
Keywords: asymmetric information, adverse selection, moral hazard, actuarial fairness, risk aversion

Reading: Ch 16 from Principles of Microeconomics 2e, OpenStax (iCollege)
KW Ch 20-1 The Economics of Risk Aversion (p. 572-578)
Exercises: KW CYU 20-3: Q1, Q2, Q3; 20-1: Q1, Q2
Discussion: Hurricane insurance (KW Business Case p. 591)
Assignment: KW Ch 20 Problems 6, 11, 13, 14

Week 13: Externalities and public goods
Other market failures and policy implications.
Keywords: externalities, marginal social costs and benefits, transaction costs, Pigouvian taxes and subsidies, public goods, excludability and rivalry in consumption, the free-rider problem

Reading: KW Ch 16 & 17
Exercises: KW CYU 16-1: Q1; 16-2: Q1, Q2; 16-3: Q2; 17-1: Q1, Q2; 17-2: Q1; 17-3: Q1, Q2; 17-4: Q1
Discussion: Carbon tax or emission permits (iCollege)
Assignment: Ch 16 Problems 1, 2, 3; Ch 17 Problems 5, 7

Week 14: Review, applications and critiques
Review of key concepts and theories; applications in policy issues; limitations of the basic models and further topics

Reading: KW Ch 9-4 Behavioral Economics (p. 261-265), Ch 7-3 & 7-4 (p. 199-205)
KW Ch 18 The Economics of the Welfare State

**Discussion:**
- For-hire vehicles (iCollege)
- ACA and freedom to farm (KW Business Case p. 530)
- Nudge (iCollege)