

PRELIMINARY August 3, 2011

THE NEW SCHOOL

Milano: The New School for Management and Urban Policy

MEFI5060.2990: Economics for Management and Public Policy

Fall 2011

Class Sessions: Monday, 4:00-5:50

Lab sessions: Wednesday, 4:00-5:15 or 8:00-9:15

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TA:

**Office Hours: Tuesday 4-6:00 PM
and by appt.**

Course Description

This is an introductory graduate course in applied economics. It is introductory in the sense that it assumes no prior exposure to economics. But it is at the same time a graduate course, fulfilling the economics requirement for the Masters programs in the Milano School. To qualify as a graduate course, we will work through not just an economics textbook, but many other readings as well, including those from the professional literature. And finally, it is applied in the sense that is concerned with the application of economic analysis to real world problems (it is not a “theory” course).

To provide the political economy context, we begin with an introduction to economic history, economic thought, and economic institutions. We will also devote a number of class sessions to macroeconomics (including the current crisis), trade, and globalization. The focus for the remainder of the course will be on microeconomics: how individuals interact with and through organizations and institutions in the production and allocation of resources. *Organizations* include firms, and *institutions* include markets, social norms, formal rules and regulations, and various government actions (e.g., the production of “public goods” and the redistribution of resources through taxing and spending).

How goods and services are produced and allocated (what is produced, why, and who gets it) is critical to the well being of individuals, families, and communities. Policy makers, policy advocates, managers, and individuals in their private life make decisions that take into account both costs/benefits and norms of fairness and “good” (and “bad”) behavior. The premise of this course is that a better understanding of economic principles and tools can help produce better decisions and better outcomes. What are “better” decisions and outcomes? The short answer is

that “better” means *more efficiency* (less waste: you get what you want at less cost) and *more equity* (more fairness: those who should get resources do get them).

You can think of microeconomics as useful on three levels. The *first* is daily life. “Thinking like an economist” means weighing costs and benefits, accounting for incentives, and making decisions on the basis of effects at the “margin” – it’s not always the average costs that matter most (those may include “sunk” costs that are irrelevant); rather, what is key are the *additional* costs associated with a decision. We will emphasize the importance of the roles played by reciprocity and social norms rather than just narrow economic rationality (the short term maximization of net benefits by self-regarding individuals).

A *second level* can be thought of as the use of economic tools for weighing the efficiency and equity considerations of decision making, whether as managers or policy makers. For decision makers in positions of power (in organizations and in the political sphere) “thinking like an economist” requires an understanding of a number of micro analytical concepts, tools, and models. These include opportunity costs, marginal utility and marginal productivity, demand/supply, consumer and producer surplus, Pareto improvements and Pareto efficiency, elasticity, comparative advantage, the nature of competition in markets (e.g., perfect competition, monopoly and oligopoly), imperfect information and strategic behavior (game theory), externalities, and public goods.

Building on these microeconomic tools and concepts, a *third level* is concerned with “big picture” questions that have important implications for us as managers, policy makers, community members and individuals. The central question here concerns the proper role of the state in a market economy. What should be left to *markets*, where individuals and firms are often assumed to pursue their *self-interest*, what should be left to communities, and what roles should be played by government policies and programs that are intended to promote the *public interest*? More specifically, we ask: What mix of private and public activities achieves the greatest efficiency and equity for a given local community, for the national “community,” and for the global community? How do we respond to the current economic crisis and how can we prevent another one?

Required Texts:

David C. Colander, *Microeconomics*, 8th Edition, (McGraw Hill, 2010), paper.

John Cassidy, *How Markets Fail: The Logic of Economic Calamities* (Farrar, Straus and Giroux, 2009)

George A. Akerlof and Robert J. Schiller, *Animal Spirits: How Human Psychology Drives the Economy, and Why it Matters for Global Capitalism* (Princeton, 2009).

Recommended:

For a broad overview with an emphasis on economic development and sustainable development:

** Partha Dasgupta, *Economics: A Very Short Introduction*, (Oxford University Press), paper \$11.95.

For popular books by economic journalists about “how economists view the world”:

* Tim Harford, *The Undercover Economist* (Oxford, 2006), paper.

* Charles Wheelan, *Naked Economics*, (Norton), paper.

In addition, there will be readings marked with asterisks and indented under each session on the outline below. “**BB**” indicates that it will be posted on Blackboard.

Students should read the daily business press (e.g., New York Times, Wall Street Journal, Financial Times) and be prepared to discuss current events in class.

Course Requirements:

Mid-term exam (30% of the final grade) to be held during a lab session (see syllabus).

Final exam (40%) will cover the entire semester, but with more weight on the material covered since the mid-term. This is a closed book exam to be held in the last lab session.

To pass the course you must pass the final exam.

Writing assignments (30%): **three** discussion papers that are no more than two pages in length. These can focus on the recommended readings or on recent substantial commentaries/blogs/editorials in the news media (I recommend the *New York Times* Economix bloggers (ranging from a left-feminist to a Chicago free market fundamentalist!) and the Sunday *NY Times*’ “Economics View” column). Your papers should describe and evaluate the argument in light of class readings and your own views. These should not be casual, personal commentaries. Write them as if you were submitting them for publication and your goal is to convince those on the other side of the issue (writing for those who agree with you is not very useful or challenging!!). You should reference and quote from at least two course readings and post it no later than Sunday night (midnight) before the relevant class session. You should be prepared to provide a 2 minute overview in class. They will be graded as a check plus, check or check minus, and these will be aggregated into a letter grade worth 30%.

Lab questions. These are to be turned in at each lab session, or prior to the session if you don’t attend. This gets a pass/fail grade. An F will be given for either failure to hand in more than 3 assignments, or evidence of a lack of effort in answering the questions throughout the semester. This grade is given by the TA. An F on the Lab part of the course will reduce your final grade by a half grade (e.g., from an A- to a B+). The point of grading these is to encourage you to stay current with the readings and confirm that you are understanding the material.

Other Business:

Lab sessions will focus on the problem sets (posted on BB) and informal question/answer. Your answers will be graded by the lab assistant. Attendance the lab sessions is highly recommended but not required. If you do not attend, you must drop off your questions prior to the session (on the file cabinet in front of my office).

An incomplete will only be given at the discretion of the instructor and must be arranged prior to the last week of the course.

Plagiarism: If your name is at the top of the exam or paper, the words and thoughts must be your own,

unless you have used quotation marks and/or provided proper references. Any evidence of plagiarism will result in an automatic F for the course.

Course Outline

Class 1: Course Overview (8-29)

Colander, Preface for the Student (pp. xxi-xxiv)
Colander, Chapter 1: “Economics and Economic Reasoning”
Cassidy, Chapter 1: “Introduction”

Class 2: Lessons from Economic History (Lab session, 8-31)

J. Diamond, Chapter 14: “From Egalitarianism to Kleptocracy” BB
Heilbroner, *The Worldly Philosophers*, Chapter 2: “The Economic Revolution” BB
Colander, Chapter 3, “Economic Institutions”; Appendix A: “History of Economic Systems”

Monday September 5th is a holiday (Labor Day)

Class 3: Capitalism, Adam Smith, and the Wealth of Nations (lab session 9-7)

Heilbroner, “The Nature of Economics (and Capitalism)” BB
Adam Smith, *The Wealth of Nations*: chapters 1-3 (3-22) BB
Cassidy, “Adam Smith’s Invisible Hand” (25-36)
Colander, Macro Chapter 9: “Growth, Productivity and the Wealth of Nations” BB

Class 4: From Smith to Modern Economic Analysis: alternative perspectives (9-12)

Bowles et al., Chapter 3: “A Three Dimensional Approach” BB
Colander, Chapter 4: “Supply and Demand”
Colander, Chapter 6: “Thinking Like a Modern Economist”
Cassidy, Chapter 15: “Psychology Returns to Economics”

Lab (9-14): Colander Chapters 4 and 6 (problem set due)

Class 5: Foundations: Psychology, Social Norms and Individual Behavior - the orthodox model and its critique (9-19)

Colander, Chapter 10: “The Logic of Individual Choice: the foundation of supply and demand” (172-187); Colander, Chapter 10 Appendix A: “Indifference Curve Analysis (192-7)”
Bowles et al., Chapter 2: “People, Preferences and Society” (pp. 31-50) BB
Akerlof and Shiller, Part I: “Animal Spirits (Chapters 1-5)”

Recommended:

* Frans B. M. de Wall, “How Animals Do Business,” *Scientific American* (April 2005). **BB**

Lab (9-21): Colander, Chapter 10, with Appendix (problem set due)

Class 6: The Economics of Trade and Globalization (9-26)

Colander, Chapter 2: “The Production Possibility Model, Trade, and Globalization”
Colander, Chapter 9: “International Trade Policy, Comparative Advantage and Outsourcing”
Ha-Joon Chang, “Kicking Away the Ladder – the ‘Real’ History of Free Trade” (2003) BB

Stiglitz vs Hufbauer: “Is a Fair Trade Policy Superior to a Free Trade Policy”? (In *Taking Sides*) BB

Lab (9-28): Colander chapters 2 and 9 (problem sets due).
(this is a holiday – we may need to reschedule for Friday)

Class 7: The S&D Model: Elasticity (10-3)

Colander, Chapter 5: “Using Supply and Demand”

Colander, Chapter 7: “Describing Supply and Demand: Elasticities”

Andrew Sum et al., “The Impact of New Immigrants on Young Native-Born Workers, 2000-2005,”
Center for Immigration Studies, September 2006 BB

Howell, “Do surges in Less-Skilled Immigration have Important Wage Effects?
A Review of the U.S. Evidence,” SCEPA Working Paper 2007-2 BB

Recommended

* David Card, “Is the New Immigration Really So Bad?”, *Economic Journal*, 2005 (or, more recently, see Card’s article in the *American Economic Review*, May 2009) BB

Lab (10-5): Colander chapters 5 and 7 (problem sets due).

Class 8: The S&D Model: Consumer Surplus, Taxation and Price Regulation (10-10)

Colander, Chapter 8: “Taxation and Government Interventions,”

Becker and Posner, Minimum Wages (WSJ) BB

Liana Fox, “Minimum Wage Trends: Understanding past and contemporary research,”
EPI Briefing Paper #178, Economic Policy Institute, Nov. 8 2006

Ellingsen and Englund, “Rent Regulation: An Introduction” *Swedish Economic Policy Review*
10 (2003)

Recommended

* W. Tucker, “How Rent Control Drives Out Affordable Housing,” Cato Policy Analysis
no. 274 (1997). BB

* Richard Arnott, “Time for Revision on Rent Control?”, *Journal of Economic Perspectives*,
Winter 2005.

Lab (10-12): Colander chapter 8 (problem sets due).

Class 9: Mid-Term Take-Home (10-17)
(covering classes 1-8)

Class 10: The Supply Side: the production process and costs (10-24)

Colander, Chapter 12: “Production and Cost Analysis I” (198-212)

Colander, Chapter 13: “Production and Cost Analysis II” (216-29)

Case: Cambridge Sanitation (BB)

Lab (10-26): Colander chapters 12-13 (questions due)

Class 10: Perfect and Imperfect Competition (10-31)

Cassidy, Chapters 4-6

Colander, Chapter 14: “Perfect Competition” (238-255)

Colander, Chapter 15: “Monopoly”

Recommended:

*Dean Baker, Chapter 1: “Doctors and Dishwashers: How the Nanny State Creates Good Jobs for Those at the Top,” and Chapter 4: “Bill Gates – Welfare Mom: How Government Patent and Copyright Monopolies Enrich the Rich and Distort the Economy,” in *The Conservative Nanny State* (downloadable free from the Center for Economic and Policy Analysis (CEPR)).

Lab (11-2): Colander Chapters 14 and 15 problem sets due.

Class 11: Imperfect Information and Strategic Decision Making (11-7)

Cassidy, Chapter 11, “The Prisoner’s Dilemma and Rational Irrationality”

Cassidy, Chapter 12, “Hidden Information and the Market for Lemons”

Colander, Chapter 11, “Game Theory, Strategic Decision Making, and Behavioral Economics”
pp. 255-63

Colander, Chapter 17: “Real-World Competition and Technology”

Recommended

*Cabolis et al., “A Textbook Example of International Price Discrimination,” BB

Lab (11-9): problem set, Colander chapters 11 and 17 due

Class 12: Limits of the Market: Public Goods, Externalities, and the Role of Nonprofit Organizations (11-14)

Colander, Chapter 21: “Market Failure versus Government Failure”

Cassidy, Chapter 9: “The Prof and the Polar Bears”

Cassidy, Chapter 10: “A Taxonomy of Failure”

Recommended:

*Thomas C. Kinnaman, “Examining the Justification for Residential Recycling”, *Journal of Economic Perspectives* (fall 2006) BB

* Leape, “The London Congestion Charge”, *Journal of Economic Perspectives*, (2006) BB

*Gronbjerg, “Markets, Politics and Charity” BB

Lab (11-16): Colander chapter 21 (problem set due)

Class 13: Labor Markets and Inequality (11-21)

Colander,

Akerlof and Shiller, Chapter 13 “Why is there special poverty among minorities?”

J. Stiglitz, The global crisis, social protection and jobs” *International Labour Review*,
vol. 148, no. 1-2 (2009) BB

Lab: must be scheduled

Class 14: Business Cycles, Inflation and Unemployment; The Great Recession (11-28)

Colander: Macro Chapter 6

Howell and Okatenko, “By What Measure? A Comparison of French and U.S. Labor Market
Performance with New Indicators of Employment Adequacy” *International Review of Applied
Economics* (2010) BB

Akerlof and Schiller, Chapters 6-9

Recommended:

- * Wendy Carlin, “Macroeconomic paradigms, policy regimes and global economic crises” BB
- * Thomas Palley, “America’s Exhausted Paradigm: Macroeconomic Causes of the Financial Crisis and Great Recession,” New America Foundation, June 2009. BB
- * Olivier Blanchard, Giovanni Dell’Ariccia, and Paolo Mauro, “Rethinking Macroeconomic Policy” (IMF, January 2010, download)
- * Cassidy, Chapters 16-23

Lab (11-30): Colander chapter 6

Class 15: Economics, Economic Crisis, and Economic Policy; Review (12-5)

Colander, Chapter 22: “Behavioral Economics and Modern Economic Policy

Cassidy, “Conclusion”

Akerlof and Schiller, “Conclusion”

Lab (5/7): Review

Class 16: Final Exam (12-12)