

APPLIED WELFARE AND POLICY ANALYSIS

AREC 507
MWF 1:00 – 1:50pm

Spring 2020
Eddy 118

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Office Hours (B-314 Clark): Tues. 2–3pm, Thurs. 10–11am, and by appointment

The primary objective of this course is to link microeconomic theory with the assessment of policy impacts and social outcomes. To accomplish this, we will begin by covering general equilibrium modeling and methods for measuring welfare outcomes of consumers and producers. Using these measures, we will characterize market outcomes, highlight common types of market failure as well as policy solutions, and investigate the implementation of cost benefit analysis. In assessing economic policy options, we will discuss distributional and political economy considerations as well as the role of behavioral economics in influencing policy design and assessment. As a critical component of the course, students will be expected to write a research plan for assessing the welfare effects of a specific policy or program.

Course Objectives:

- (1) Learn how to measure welfare outcomes for consumers and producers and identify the magnitude of specific market failures.
- (2) Develop an ability to rigorously compare the benefits and costs of competing policies or projects, including distributional, behavioral and political economy considerations.
- (3) Improve ability to read, conduct and disseminate research by developing a plan to assess the welfare implications of a specific economic policy or market feature.

Readings:

The readings will come from the textbook listed below or made available on Canvas. The readings that are required for a given class are indicated in the course schedule and will be announced in class. All documents, including the course schedule, problem sets, and exams will be posted on Canvas.

Just, R.E, D.L. Hueth, and A. Schmitz, *The Welfare Economics of Public Policy: A Practical Approach to Project and Policy Evaluation*. 2004. Edward Elgar Publishing.

Grading (out of 100%):

4 Problem sets (10%) – You will be given one week to complete each problem set. Problem sets will be assessed a grade of check, check minus, or incomplete. *Late assignments will not be accepted.* You can work on an assignment with, at most, one other classmate. If you work with a classmate, please only turn in one problem set with both of your names at the top.

Midterm exams (30%) – Two in-class exams will be given during the semester that will test the material covered in class and the assigned readings.

Final exam (30%) – A *comprehensive* final exam will be given during the exam period.

Research plan and presentation (25%) – You will be expected to define a research question related to the welfare effects of a particular policy, program or market feature and propose a plan for rigorous economic research to address the question. The plan should include a literature review, a description of the theoretical incentives faced by producers and consumers, as well as how economic welfare could be empirically measured. The research plans will be presented to the rest of the class during the last two weeks of the semester.

Participation (5%) – Participation in all class discussions is valued. We will cover at least one reading from the literature each week and all students will be expected to contribute to the class discussion.

Academic Integrity:

This course will adhere to the Academic Integrity Policy of the CSU General Catalog and the Student Conduct Code. I expect all your work to be your own, with the exception of problem sets, where you can work with one other student. Cases of plagiarism in written work will be taken seriously, so please familiarize yourself with CSU's guide to avoiding plagiarism (<http://writing.colostate.edu/guides/researchsources/understandingplagiarism/plagiarismoverview.cfm>).

Documented Disabilities:

If you have a documented disability and wish to discuss academic accommodations, please contact me as soon as possible to set up appropriate arrangements. Further info- <http://rds.colostate.edu/students>

Principles of Community:

The Principles of Community support the Colorado State University mission and vision of access, research, teaching, service and engagement. A collaborative, and vibrant community is a foundation for learning, critical inquiry, and discovery. Therefore, each member of the CSU community has a responsibility to uphold these principles when engaging with one another.

Inclusion: We create and nurture inclusive environments and welcome, value and affirm all members of our community, including their various identities, skills, ideas, talents, and contributions.

Integrity: We are accountable for our actions and will act ethically and honestly in all our interactions.

Respect: We honor the inherent dignity of all people within an environment where we are committed to freedom of expression, critical discourse, and the advancement of knowledge.

Service: We are responsible to give of our time, talents, and resources to promote the well-being of each other and the development of our local, regional, and global communities.

Social Justice: We have the right to be treated and the responsibility to treat others with fairness and equity, the duty to challenge prejudice, and to uphold the laws, policies and procedures that promote justice in all respects.

Need Help?

CSU is a community that cares for you. If you are struggling with drugs or alcohol and/or experiencing depression, anxiety, overwhelming stress or thoughts of hurting yourself or others please know there is help available. Counseling Services has trained professionals who can help. Contact 970.491.6053 or go to <http://health.colostate.edu>. If you are concerned about a peer, tell someone by calling 970.491.1350 to discuss your concerns with a professional who can discreetly connect the individual with the proper resources (<http://supportandsafety.colostate.edu/tellsomeone>). Reach out and ask for help if you or someone you know is having a difficult time.

Sexual Assault and Violence Elimination:

CSU's Student Sexual Harassment and Violence policy, following national guidance from the Office of Civil Rights, requires that professors follow CSU policy as a "mandatory reporter" of any personal disclosure of sexual harassment, abuse, and/or violence related experiences or incidents shared with the professor in person, via email, and/or in classroom papers or homework exercises.

These disclosures include but are not limited to reports of personal relational abuse, relational/ domestic violence, and stalking. While professors are often able to help students locate appropriate channels of assistance on campus, disclosure by the student to the professor requires that the professor inform appropriate CSU channels to help ensure that the student's safety and welfare is being addressed, even if the student requests that the disclosure not be shared.

For counseling support and assistance, please see the CSU Health Network, which includes a variety of counseling services that can be accessed at: <http://www.health.colostate.edu/>. The Women and Gender Advocacy Center has resources to help students who have experienced sexual assault: <http://www.wgac.colostate.edu/support/sexual-assault>.

Course Outline:

- Weeks 1 – 3: *General equilibrium analysis* - Pareto efficiency, Kaldor-Hicks criterion, social welfare functions.
- Weeks 4 – 8: *Welfare measurements* – measuring welfare for consumers, producers, aggregation, welfare analysis of market policies and information.
- Weeks 9 – 11: *Market failure and cost benefit analysis* –externalities, public goods, nonmarket valuation, discounting, distributional concerns, cost-effectiveness analysis.
- Weeks 12 – 13: *Empirical policy evaluation* –identification of policy impacts and causality, natural experiments, randomized controlled trials.
- Weeks 14 – 15: *Behavioral economics and political economy* –nudges and other policy considerations from behavioral economics, policy implications of political economy.
- Week 16: *Student presentations*

Course Schedule

Week	Monday	Wednesday	Friday
Jan. 22		JHS Ch. 1	JHS Ch. 2
Jan. 27	JHS Ch. 2	JHS Ch. 2	Hayek 1945
Feb. 3	JHS Ch. 3	JHS Ch. 3, PS 1 due	Dolan and Tsuchiya 2011
Feb. 10	JHS Ch. 4	No Class	Letourneau et al. 2015
Feb. 17	JHS Ch. 4	Exam 1	Malone and Lusk 2016
Feb. 24	JHS Ch. 6	JHS Ch. 6, Research question	Lichtenberg and Zilberman 1986
Mar. 2	JHS Ch. 8	JHS Ch. 8, PS 2 due	Amiti et al. 2019
Mar. 9	JHS Ch.11	JHS Ch.11	Zilberman et al. 2018
Mar. 16	Spring Break	Spring Break	Spring Break
Mar. 23	JHS Ch. 13	JHS Ch. 13, PS 3 due	Anas and Lindsey 2011
Mar. 30	JHS Ch. 14	Exam 2	JHS Ch. 14
Apr. 6	Boardman Ch. 19	Boardman Ch. 18, Lit review	Farrow 2013
Apr. 13	Ferraro 2014	Ferraro 2014, PS 4 due	Ebenstein et al. 2017
Apr. 20	Burde and Linden 2013	Just and Gabrielyan 2016	Levitt et al. 2016
Apr. 27	Research draft	Salanie and Treich 2009	Ferreira and Gyourko 2014
May 4	Presentations	Presentations	Presentations

Reading details

Amiti, Redding, and Weinstein, 2019 “The impact of the 2018 trade war on U.S. prices and welfare”

Anas and Lindsey, 2011 “Reducing urban road transportation externalities: road pricing in theory and practice”

Boardman, 2010 Cost-Benefit Analysis, Pearson. Saddle River, NJ.

Burde and Linden, 2013 “Bringing education to Afghan girls: a randomized controlled trial of village-based schools”

Dolan and Tuschya, 2011 “Determining the parameters in a social welfare function using stated preference data: an application to health”

Ebenstein, Fan, Greenstone, He, and Zhou, 2017 “New Evidence on the Impact of Sustained Exposure to Air Pollution on Life Expectancy from China’s Huai River Policy”

Farrow, 2013 “How (not) to lie with benefit-cost analysis”

Ferreira and Gyourko, 2014 “Does gender matter for political leadership? The case of U.S. mayors”

Ferraro and Hanauer, 2014 “Advances in measuring the environmental and social impacts of environmental programs”

Hayek, 1945 "The use of knowledge in society"

Just and Barielyan, 2016 “Why behavioral economics matters to global food policy”

Letourneau et al., 2015 “Simple-but-sound methods for estimating the value of changes in biodiversity for biological pest control in agriculture”

Levitt, List, Neckermann and Sadoff, 2016 “The behavioralist goes to school: leveraging behavioral economics to improve educational performance”

Lichtenberg and Zilberman, 1986 "Welfare economics of price supports in U.S. agriculture"

Malone and Lusk, 2016 “Putting the chicken before the egg price: an ex post analysis of California’s battery cage ban.”

Salanie and Treich, 2009 "Regulation in Happyville"

Zilberman, Kaplan, and Gordon, 2018 “The political economy of labeling.”