Economics 432 – Economics of Public Policy

Scope

The logic underlying the economics and politics of public policies concerning issues such as international trade, monetary policy, fiscal policy, market reforms, pollution control, economic inequality and the welfare state more generally. The general question we will address, using specific cases and open problems, is that of the role of markets and government in an economy.

The course relies heavily on the concepts and methods of microeconomics and macroeconomics. Economists have many theories of how economic policies work and how they should be chosen; some are better than other and there is an ongoing discussion as to what can be done and what should be done. We will look at the theories, we will examine the facts (past and present), then we will go back to the theories and reconsider their explanatory power. After acquiring the necessary technical back-ground we will organize the class in a few research groups that, under my supervision, will address specific economic policies issues.

The logic underlying the economics and politics of public policies concerning issues such as international trade, monetary policy, fiscal policy, market reforms, pollution control, economic inequality and the welfare state more generally. The course relies heavily on the concepts and methods of microeconomics and macroeconomics. There are many theories of how economic policies work and considerable debate as to what can be done and what should be done. We will examine the facts (past and present), and then examine the theories and their explanatory power. We will also organize the class into a few research groups that will address specific economic policies issues.

Prerequisite: Econ 4011 and Econ 4021.

Organizational Details

My office is in Seigle Hall 338, and my office hours are Monday and Wednesday, 3:00 – 4:30 p.m. My office phone number is -555636 and my cell is 612-2321065; my email address is boldrin@wustl.edu. I suggest making an appointment for meetings outside of the regular office hours.

TA: TBA
There will be a Midterm exam on the 8th week (Wednesday, March 6th). This will count toward 40% of the final grade. The remaining 60% of the final grade will come from the research project you will carry on during the second half of the semester, which is due (in a suitable digital format) on the day of the final exam (TBA). We will select the topics for the research groups together, in class, before Midterm. This should give you enough time to work on the projects with the appropriate technical background. You may want to start organizing the research groups as soon as possible so you can become well acquainted with the other members of the group.

Textbook and Lecture Notes

This is a reading-intensive course. The two books I indicated as “textbooks” in the initial course description are just the most relevant among the recommended readings because they represent fairly well two extreme and opposite points of view. Reading them is essential but not enough. A list of recommended readings is at the end of the Syllabus; it will be updated as the semester progresses hence, please, read the mails I will be sending you.

Academic integrity

You are held to the standards of academic integrity established by Washington University and your individual college. In particular, evidence of cheating on an exam will result, initially, in a failing grade on the exam, and immediate academic disciplinary action. If you ever feel that these standards of academic integrity are not being met, please notify me or an undergraduate advisor immediately. If you are uncertain about the policy on academic integrity at Washington University, refer to your undergraduate advisor, to the university’s Student Judicial Procedures, or to your school’s statement of student academic integrity. For the College of Arts & Sciences’ students, the latter is published each semester in the Course Listings booklet.

On the use of laptops in class: I do not ban electronics in class … still, I request you use them with respect toward your classmates, your intelligence and, if you do not mind, myself.

Course Outline and Reading Suggestions

Week 1
Assigning meaning to words: public policy, government intervention, free markets, policy goals, welfare state, regulatory state, self-organized markets. Reconsidering the “Economic Problem” vs the “Political Problem”. Can we analyze them “independently” from each other?

Week 2
Week 3
The Wealth of Nations, the Wealth of the People and that of each single Person. The many theories of economic growth and their tautological nature.

Week 4
Static versus dynamic efficiency: the problem of allocating resources and welfare over time. Competition, equilibrium, welfare theorems and market failures. Planning as an alternative to decentralized markets.

Week 5
Social Insurance, Imperfect Information, Adverse Selection and Moral Hazard.

Week 6
Two points of view: “Public Choice” vs “Law Economis”.

Week 7
The Political Economy approach. Review Section.

Week 8
Reading for Midterm and Midterm Examination.

Week 9-14
Presentation and discussion of the research projects

Recommended Readings

Burnham, J. [1964], Suicide of the West
Calabresi, G. [2016], The Future of Law Economics
Fukuyama, F. [2011], The Origins of Political Order
Fukuyama, F. [2014], Political Order and Political Decay
Hayek, F.A. [1944], The Road to Serfdom
Knight, J. [1992], Institutions and Social Conflict
Olson, M. [1971], The Logic of Collective Action
North, D.C. [1990], *Institutions, Institutional Change and Economic Performance*

Phelps, E.S. [1985], *Political Economy. An Introductory Text*

Riker, W.H. [1982], *Liberalism Against Populism*

Sowell, T. [2016], *Wealth, Poverty and Politics*

Sunstein, C. [2019], *On Freedom*

Tirole, J. [2017], *Economics for the Common Good*