

ECON 309: Public Policy

“...we fix our eyes not on what is seen, but on what is unseen...”
~2 Corinthians 4:18

“The bad economist confines himself to the visible effect; the good economist takes into account both the effect that can be seen and those effects that must be foreseen.”
~Frederic Bastiat

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Or by appointment

This syllabus is a contract between myself and you. I will work hard to uphold the guidelines outlined here, and expect you to do the same. That said, I reserve the right to make changes if necessary.

REQUIRED TEXTS

Selected readings

COURSE DESCRIPTION

This course explores the application of microeconomic theory to real-world policy dilemmas. Knowing graphs or having memorized some economic principles and definitions is not synonymous with “knowing economics,” though it is a start. The ability to apply economic reasoning to concrete situations is key. Applied work in public policy economics is predictive and anticipative: using the *ceteris paribus* assumption, economics gives us tools to predict the general pattern that public policies will generate—particularly those effects that are difficult to detect without economic training.

This course examines government intervention into the unhampered market economy with our eye on the question: “What role—if any—should the state play in economic life?” Ours is a challenging task because, as Bastiat noted over 150 years ago, the key to sound policy analysis is “seeing the unseen.”

Learning economics may mount serious intellectual challenges to many widely-held and sometimes deeply-cherished beliefs about how the world works. Economics, when properly applied, places parameters on people’s utopias—a fact which helps explain economists’ historic (though not necessarily contemporary) unpopularity in the halls of power. In this class, we will

not shy away from topics about which economics may offer a controversial analysis; instead, we will explore them with a respectful tone and in light of Christian revelation.

We will not use a textbook; instead, required readings will consist of academic papers, excerpts from seminal books in economics, and the occasional piece of popular writing by a professional economist. This approach yields two benefits: 1. it saves you money and 2. it introduces you to the writing of professional economists, a skill that will benefit you in any graduate school context (and many other contexts). In order to improve as a writer, it is obviously necessary, but also insufficient, that you write. Reading the work of those who have honed these skills is invaluable for developing your own ability to reason and write as an economist.

LEARNING OUTCOMES:

This course is intended to equip students to:

1. Identify and describe the strengths and weaknesses of rationales that have been offered for a host of public policies. This will be assessed by an exam, pop quizzes, in-class discussion, and a final paper. [2, 3, 4]
2. Identify the “unseen” effects of public policies, using the economic way of thinking. This will be assessed by an exam, pop quizzes, in-class discussion, and a final paper. [2, 3, 4].
3. Identify the “winners” and the “losers” in many government interventions. This will be assessed by an exam, pop quizzes, in-class discussion, and a final paper. [2, 3, 4, 5]
4. Apply the “economic approach” to a host of specific public policy issues, including price controls, trade, prohibition, antitrust, externalities, welfare policy, and economic development. This will be assessed by an exam, a final paper, and in-class discussion. [2, 3, 4, 5]
5. Describe the role of entrepreneurs in responding to real-world problems. This will be assessed by an exam, final paper, and in-class discussion. [2]

TENTATIVE SCHEDULE OF TOPICS, ASSIGNMENTS, AND EXAMS

<u>DATE</u>	<u>TOPIC</u>	<u>READING</u>
Aug 29	The Economic Approach	Heyne: "Economics as a Way of Thinking"
Aug 31	The Economic Approach	Rothbard: "Economic Science and Public Policy" in <i>Man, Economy, and State with Power and Market</i> (pp. 1357-1369) Bastiat: "The Broken Window"
Sept 5	Property Rights	Alchian and Demsetz: "The Property Right Paradigm"
Sept 7*	Property Rights	Higgs: "Regime Uncertainty: Why the Great Depression Lasted so Long and Why Prosperity Resumed after the War" Rothbard: "The Myth of 'Public' Ownership" in <i>MES∩PM</i> (pp. 1276-1279)
Sept 12	Supply and Demand	Radford: "The Economic Organization of a POW Camp"
Sept 14*	The Role of Prices	Sennholz: "The Formation and Function of Prices" Munger: "They Clapped: Can Price Gouging Laws Prohibit Scarcity?"
Sept 19	The Economics of Politics	Bastiat: "A Petition" Baumol: "Entrepreneurship: Productive, Unproductive, and Destructive"
Sept 21*	The Economics of Politics	Rothbard: "Democracy" in <i>MES∩PM</i> (pp. 1279-1291)
Sept 26	Price Controls	Friedman and Stigler: "Roofs or Ceilings?" Bernstein and Schmitt: "The Impact of the Minimum Wage"
Sept 28*	Price Controls PAPER TOPIC APPROVAL DEADLINE	de Jasay: "On the Economics of Protecting Employment" Leonard: "Eugenics and Economics in the Progressive Era" (pp. 212-215) Rustici: "A Public Choice View of the Minimum Wage"
Oct 3	International Trade	Irwin: "A Brief History of International Trade Policy"

		Kling: "International Trade"
Oct 5*	International Trade	Krugman: "What do Undergrads Need to Know about Trade?"
Oct 10	MIDTERM	Study
Oct 12	Prohibition	Miron and Zwiebel: "The Economic Case Against Drug Prohibition"
Oct 17*	Prohibition	Wilson: "Against the Legalization of Drugs" Yandle: "Bootleggers and Baptists: The Education of a Regulatory Economist"
Oct 19	FALL BREAK	
Oct 24	Licensing	S. David Young: "Occupational Licensing" Tullock: "The Transitional Gains Trap"
Oct 26	Monopoly	Crandall and Winston: "Does Antitrust Policy Improve Consumer Welfare? Assessing the Evidence"
Oct 31*	Monopoly	Blake and Jones: "In Defense of Antitrust" Armentano: "Time to Repeal Antitrust Legislation?"
Nov 2	Externalities	Cordato: "Toward an Austrian Theory of Environmental Economics"
Nov 7*	Externalities	Ellickson: "Of Coase and Cattle: Dispute Resolution Among Neighbors in Shasta County"
Nov 9	Public Goods	Zycher: "Defense" Coyne and Lucas: "Economists Have No Defense" (pgs. 73-77)
Nov 14	Information Asymmetry	Akerlof: "The Market for 'Lemons': Quality Uncertainty and the Market Mechanism" Hoffer and Pratt: "Used Vehicles, Lemons Markets, and Used Car Rules: Some Empirical Evidence"
Nov 16	Product & Safety Regulation	Peltzman: "Regulation and the Natural Progress of Opulence"
Nov 21	THANKSGIVING	
Nov 23	THANKSGIVING	
Nov 28*	Product and Safety Regulation	Thaler and Sunstein: "Libertarian Paternalism"

		Thaler and Rizzo (debate): “Should Policies Nudge People?” Higgs: “Banning a Risky Product Cannot Improve Any Consumer’s Welfare (Properly Understood), with Applications to FDA Testing Requirements”
Nov 30	Welfare Policy PAPER DUE	Porter: “The Myth of Welfare’s Corrupting Influence on the Poor” Pasour: “The Samaritan’s Dilemma and the Welfare State”
Dec 5*	Welfare Policy	Bergh: “Is the Swedish Welfare State a Free Lunch?”
Dec 7	Development Policy	Leeson: “Two Cheers for Capitalism?” Bauer: “From Subsistence to Exchange” (Ch. 1 in <i>From Subsistence to Exchange</i>)
Dec 12*	Development Policy	Sachs: “The Case for Aid” Leeson and Skarbek: “What Can Aid Do?”
Dec 14	Study Day	
Dec 15	FINAL EXAM	Study

This is a tentative schedule. If it proves to be ambitious, I will attempt to say less about each topic, rather than cutting topics entirely.

COURSE REQUIREMENTS, EVALUATION, GRADING

Final grades are based on one (1) midterm exam, one (1) paper, five (5) pop quizzes, one (1) comprehensive final exam, and class participation. The exams will consist of multiple choice, short answer, and essay questions.

As we’ll be repeatedly emphasizing in this class, the “rules of the game” shape outcomes. One of the rules in this class is that there will be 5 pop quizzes administered at the beginning of class on that day’s assigned reading. If you have an excused absence on a quiz day, the weight of that quiz will be added to the next quiz. Unexcused absences on quiz days will earn a zero on the quiz.

Guidelines on the paper are provided below. **Each student is required to meet with me to discuss a paper topic. When we meet, you should be prepared to offer me a thesis statement.** Simply stop by during my office hours. If those don’t work for you, send an email to set up a time. A hard-copy, stapled version of the final paper is due at the beginning of class November 30th. The ability to meet deadlines is a skill that is required in virtually every potential opportunity after you graduate. **As a result, (unexcused) late papers will receive a grade of zero.**

As an additional incentive to do the reading, we will be discussing the readings in class periods marked with an asterisk (I anticipate that roughly 50% of these periods will be lecture, 50% discussion). **You should come to class having prepared a question or comment on the readings that you hope will spark constructive dialogue.** I will grade participation based on each student's quantity *and* quality of contributions. In most cases, I have selected two articles which argue opposing views on a topic (example: arguing for and against foreign aid, or for and against drug prohibition). Thus, we will critically examine the strengths and weaknesses of the arguments offered in the readings.

The final grade is calculated as follows:

- (1) Midterm exam: 25%
- (1) Paper: 20%
- (1) Comprehensive final: 35%
- (5) Pop quizzes: 10% (2% each)
- Participation: 10%

Grading Scale:

A: 93-100 **A-:** 90-92.9 **B+:** 87-89.9 **B:** 83-86.9 **B-:** 80-82.9 **C+:** 77-79.9
C: 73-76.9 **C-:** 70-72.9 **D+:** 67-69.9 **D:** 63-66.9 **D-:** 60-62.9 **F:** <60

There will be no make-up exams. If you must miss an exam, please discuss it with me prior to the exam. In the event of an emergency, you should email me as soon as possible. If you miss an exam and I have not accepted your excuse, a grade of "0" will be given. If the absence is excused, the weight of that exam will be added to the final exam.

The final exam must be taken at the scheduled time. One exception: students who have three or more finals scheduled for the same day may discuss with me an alternative time to take the final.

There will be no make-up assignments. All assignments must be hard-copy and stapled; they are due at the beginning of class.

IN-CLASS EXPECTATIONS

No phone use in class. Other electronic devices can be very helpful for taking notes, but they are also an ever-present temptation (note that some elite higher education institutions have banned laptops from the classroom). **Several studies demonstrate that taking notes by hand is, on average, superior for learning and retention than is taking notes by electronic device.**¹ Nonetheless, you are free to use your laptop in this class, but please do so in respectful fashion. In other words, be aware of how your use of technology may affect others. When someone's activity imposes costs on someone else, economists call it a "negative externality." Don't impose negative externalities through your use of technology in the classroom.

PUBLIC POLICY PAPER GUIDELINES

¹ For one example, see here: <https://www.scientificamerican.com/article/a-learning-secret-don-t-take-notes-with-a-laptop/>

Each student will complete an 8-10 page paper analyzing a public policy issue. The best papers will contain cogent analysis free of grammatical problems and conveyed in a style appropriate to scholarly (rather than casual) discourse. Papers should be double-spaced, with one-inch margins and 12-point Times New Roman font. You may include a title page, but do not include it in your page count. **Your citations should adhere to the Chicago Style Author-Date format.** You may find examples here: <https://owl.english.purdue.edu/owl/>

Your grade will be based on the following criteria (see the grading rubric I've provided on myGCC) for a more detailed guide.

- Is the paper formatted correctly?
- Does the paper contain grammatical or stylistic errors?
- Is the paper's topic appropriate (i.e. a public policy issue)?
- Is the paper's tone suitable for a *scholarly* paper?
- Is there a clear and concise thesis?
- Do the paper's arguments directly support the thesis?
- Is the paper focused and clearly organized?
- Does the paper draw the appropriate conclusions from the arguments it offered?

All papers should possess the following structure: 1) Introduction concluding with a precise thesis; 2) Points of argumentation supporting the thesis; 3) Conclusion stating the implications of your argument. The opening pages of your paper should contain a strong, unambiguous thesis that clearly states the argument you are trying to advance. **The rest of your paper should be written as if you were trying to convince an opponent who currently believes contrary to your thesis.**

A thesis is a proposition that you defend by way of argumentation. Thus, statements like "This paper is about X" are not thesis statements. A thesis is something like "The minimum wage incentivizes discrimination according to a buyer's idiosyncratic preferences." Excise every thought that does not contribute to your thesis. Unfocused thoughts do not simply fail to help you make your case; they positively detract from it.

Good writing is almost always difficult to achieve. It takes a lot of practice. As economist D. McCloskey states: "Amateur writers suppose that writing is a character trait instead of a skill."² Because good writing is a skill, you should re-read (and re-write) your paper. Read it aloud. Ask a roommate to critique your prose and argumentation. Though the process is painful, good writing is paramount to thinking well. Writing down our thoughts enables us to spot errors of reasoning, sloppy prose, gaps in the argument, *non-sequiturs*, and other intellectual sins. As a former professor of mine likes to say: "Thinking without writing is daydreaming."

In my opinion, the best economics papers *begin* with a question. They *end* with an answer to that question *and* with implications that stem from the analysis. Because this is a public policy class, your research question should be germane to a public policy issue, but this still gives you significant leeway in selecting a topic. A motivating question for your paper might be: "What are the unintended consequences of a binding price ceiling on rental units?" Another way to write a paper on this same topic would be to ask: "Why is there a persistent shortage in the market for rental units?" to which the answer would be 8-10 pages explaining the effects of a price ceiling on

² From Deirdre N. McCloskey's (2000) "Economical Writing," (Second edition).

housing. Yet another, more challenging question, might be: “*Why* is there a price ceiling on the sale of rental units when that policy generates unintended consequences for so many people?”

Another reliable way to approach your paper is to conduct a means-ends analysis of some policy. Virtually every public policy is justified by some stated rationale. By taking that rationale at face-value, it is possible to use economic theory and evidence to evaluate whether the selected policy means are compatible with achieving the stated goal. For example, seatbelt laws are passed with the stated goal of making driving safer. You might ask: “Does imposing fines for driving without a seatbelt lead to a reduction in vehicle-related fatalities?” (As we’ll see this semester, economic theory gives us strong reason to believe that this policy suffers from means-end incompatibility).

Regardless of which approach you choose, your paper should include a brief literature review. What have others said on this topic or related topics? How does your paper fit in this broader conversation and advance scholarly discourse?

Below I list several topics that I believe are worthy of scholarly inquiry (exceptional papers on the following topics may even be publishable in a peer-reviewed journal). You are free to select any of the following topics or choose one of your own. **No more than two students may choose any of the topics listed below.** As a result, every student is required to meet briefly with me for approval of their topic. Suggested topics:

1. What are the limits of economic calculation in a mixed/interventionist economy?
2. Why does poverty persist in otherwise developed regions (i.e. Appalachia)?
3. Is the corporate form a creation of the state?
4. Why did the production of certain municipal “public goods” (i.e. firefighting) transition from private to public provision?
5. What causes failure in municipal utilities provision (i.e. Flint, Michigan water)?
6. Did/does government welfare crowd out poor relief supplied by religious institutions?
7. Does private provision of welfare/aid avoid the problems of public provision? If so, how?
8. Who benefits from digital privacy law?
9. How do firms innovate around a legal barrier (i.e. Uber)?
10. What explains any observed differences in organizational structure between private and public organizations?

COLLEGE REGULATIONS

This course complies with the Attendance Expectations and Academic Integrity policies of the College as described in the Grove City College Bulletin. Attendance at all classes for which a student is registered is essential to the satisfactory completion of the course. If an absence is incurred for any reason, it is the obligation of the student to ascertain from the instructor what is to be done to maintain his/her standing in the course.

A student may have unexcused absences which total less than or equal to the number of times the class meets per week. In other words, classes meeting four times per week allow four unexcused absences; three times per week allow three unexcused absences, etc. Absences are excused for authorized GCC activities, loss of immediate family member, and Zerbe-certified illness or injury. Please consult the College Bulletin (pgs. 53-54) for more details on college attendance policy.

Academic Integrity: The GCC community maintains strict standards for academic integrity and honesty. By signing their application form, all GCC students have pledged themselves to academic integrity. Please consult the College Bulletin (pgs. 55-57) for what constitutes academic dishonesty and plagiarism.

In doing papers or assignments outside of the classroom, taking exams and quizzes, and preparing for exams and quizzes, students should do their own work and not cooperate with, aid, or encourage other students to violate this policy. Consult the College Bulletin for more details on what constitutes a violation of college policy.

In addition, by vote of the GCC faculty, a student who violates, or who assists another to violate, the Honesty in Learning Policy shall be penalized with a minimum of a failing grade for the specific work for which the dishonesty was committed. More severe penalties may be imposed by faculty including failure in the course. For the processes through which incidents are handled consult the College Bulletin.

Accessibility & Accommodations: If you anticipate physical or academic barriers based on a disability, please let me know immediately so that we may discuss options. You may also contact the disability services office to establish accommodations. The Disability Services Coordinator may be reached at (724)-264-4673 or disabilityservices@gcc.edu.