



Introductory Microeconomics For Policy Analysis

Course Outline February 2019

1. Names and contact details

Course Presenter: Dr. Veronica Jacobsen
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2. Course Learning Objectives

The principles of microeconomics are fundamental to any policy analysis, essential for all analytical work in the public sector, and are the foundations for building further skills and knowledge in economics.

The objective of this course is to provide participants with an appreciation of the principles of microeconomics used in public policy analysis. To do this the course will help participants to understand:

- the nature of markets by providing a primer/refresher on basic economic concepts that underpin the economic way of thinking and by discussing supply and demand, consumer, firm and industry behaviour (microeconomics);
- the economic role of government by providing a framework for understanding the limits to markets and the nature of market failure, the rationale and form of intervention including regulation, service provision, and redistribution, and the limits of government action; and
- the economic way of thinking by providing particular economic problems as illustrations and by conveying the nature of the tool-kit that economics profession brings to the analysis of policy issues.

3. Learning outcomes

On completion of this course participants will:

- have an understanding of key economic terms and concepts;
- be able to relate economic thinking to current policy issues;
- understand how market forces operate and how government policies influence, and are influenced by, market forces;
- understand why markets can sometimes fail to deliver the best outcomes for society;
- identify instances of market failure and apply economic principles to designing policies in to prevent or reduce the costs of market failure; and
- appreciate how economics can be used in many areas in the public sector

4. Target Audience

This course will be most helpful to policy advisors with little or no experience in using economic frameworks for policy analysis. The course is also useful for policy advisors with economics training who have not done courses such as Public Economics that are used for policy analysis.

5. Relationship to Other Subjects

No previous knowledge of economics is assumed. Some familiarity with economic thinking would be helpful.

There are no pre-requisites for this course. The economic toolkit provided in this course will provide a solid analytical foundation for more advanced GEN courses and should be taken before them.

6. Overview of Session Topics

1 How the Market Works

- 1.1. Economics and Policy
- 1.1. Economic Questions
- 1.2. Economic Concepts and the Market Mechanism
 - 1.1.1 Scarcity
 - 1.1.2 Property rights
 - 1.1.3 Institutions
 - 1.1.4 Preferences
 - 1.1.5 Rationality
 - 1.1.6 Constraints
 - 1.1.7 Marginality
 - 1.1.8 Incentives
 - 1.1.9 Sunk Costs
 - 1.1.10 Discount Rates
 - 1.1.11 Opportunity cost
 - 1.1.12 Tradeoffs
 - 1.1.13 Information
 - 1.1.14 Comparative advantage
 - 1.1.15 Supply and Demand
 - 1.1.16 Trade
 - 1.1.17 Value
 - 1.1.18 Prices
 - 1.1.19 Market Efficiency and Equity
 - 1.1.20 Government Failure

2. How the Market Fails

- 2.1. Markets can “Fail”
- 2.2. Externalities
- 2.3. Public Goods
- 2.4. Information Asymmetry
- 2.5. Monopoly

3. How Government Fails

- 3.1. Why does Government Intervene?
- 3.2. The Role of the State
- 3.3. How Government Intervenes
 - 3.3.1 Regulation
 - 3.3.2 Funding (The Tax/Transfer System)
 - 3.3.3 Public Provision and Public Ownership
 - 3.3.4 Information Provision
- 3.4. Sources of Government Failure
- 3.5. Economic Theories of Regulation
- 3.6. Policymaking with Market and Government Failure

4. Economics of Policy Issues

- 4.1. New Institutional Economics
- 4.2. Behavioural Economics
- 4.3. Policy Issues for Discussion

7. Teaching and Learning Methods

The material covered by the course is wide. In standard university undergraduate curricula this material requires two separate semester-length subjects in the principles of microeconomics and principles of public economics.

The breadth of the material to be covered means that the teaching is intensive and lecture-style. Participants are expected to come to class having read the relevant chapters of the textbook so they can keep up with the pace and content of the course. They are also strongly encouraged to read widely beyond the textbook and to discuss the content of the lectures with classmates and economist colleagues.

The lectures are interactive and include class discussion of numerous “real life” examples of the application of core economic concepts to policy problems from a wide range of areas. Active participant engagement and interaction in classes is expected, meaning that all participants will be expected to speak and work in groups during the classes.

8. Class Details

Session	Date	Times	Venue
1	Monday 11 February	9am – 1pm	G01, MBIE 15 Stout St, Wellington
2	Thursday 14 February	9am – 1pm	G01, MBIE 15 Stout St, Wellington
3	Monday 18 February	9am – 1pm	G02, MBIE 15 Stout St, Wellington
4	Thursday 21 February	9am – 1pm	G01, MBIE 15 Stout St, Wellington

Please proceed to the meeting room, no need to report to the reception MBIE, 15 Stout Street, Wellington.

There will be a 15 minute break in each session.

9. Course Costs

This course is provided by the Government Economics Network (GEN) at a cost of \$400 plus GST per person.

10. Course Materials

10.1 Recommended Text

No single textbook meets all the needs for the coverage, approach and application required for this subject. It is important to have access to a good introductory microeconomics textbook that should cover most of the material, as no specific readings are provided for each topic.

The following introductory textbook is recommended, although other introductory textbooks can also be used:

Gans, Joshua, Stephen King, Robin Stonecash and N. Gregory Mankiw (2011) *Principles of Economics*. 5th ed. (Southbank, VIC: Thomson).

The following chapters of Gans are assigned as readings for each session.

Session	Topic	Reading
1	How the Market Works	Gans Ch 1 to 6
2	How the Markets Fails	Gans Ch 10, 11
3	How Government Fails	Gans Ch 23 (pp. 524-529)
4	Economics of Policy Issues	Gans Ch 23

10.2 Additional Reading

Participants are encouraged to read widely among a range of books that discuss economic issues in an easy-to-understand fashion, such as:

- Bowmaker, Simon W (2006) *Economics Uncut: A Complete Guide to Life, Death, and Misadventure*. (Cheltenham: Edward Elgar).
- Cowen, Tyler (2007) *Discover Your Inner Economist: Use Incentives to Fall in Love, Survive Your Next Meeting, and Motivate Your Dentist*. (Dutton Adult).
- Coyle, Diane (2004) *Sex, Drugs and Economics: An Unconventional Intro to Economics*. (Texere).
- Cox, Simon (2006) *Economics: Making Sense of the Modern Economy*. (Bloomberg Press).
- Frank, Robert (2007) *The Economic Naturalist*. (New York NY: Basic Books).
- Friedman, David (1997) *Hidden Order: The Economics of Everyday Life*. (Harper Collins).
- Gans, Joshua (2008) *Parentonomics: An Economist Dad Looks at Parenting*. (Cambridge MA: Massachusetts Institute of Technology).
- Gwartney, James D, Richard L Stroup, Dwight R Lee and Tawni Hunt Ferrarini (2010) *Common Sense Economics: What Everyone Should Know About Wealth and Prosperity*. (St. Martin's Press).
- Guest, Ross (2012) *Government in a Market Economy*. 3rd ed. (Melbourne: Cengage Learning Australia).
- Harford, Tim (2005) *The Undercover Economist: Everyday Secrets of Poverty and Wealth*. (New York: Oxford University Press).
- Harford, Tim (2008) *The Logic of Life: The Rational Economics of an Irrational World*. (London: Random House).
- Harford, Tim (2010) *Dear Undercover Economist: The Very Best Letters from the "Dear Economist"*. (Abacus).
- Hazlitt, Henry (1988) *Economics in One Lesson: The Shortest and Surest Way to Understand Basic Economics* (San Francisco CA: Laissez Faire Books).
- Heyne, Paul, Peter Boettke and David Prychitko (2010) *The Economic Way of Thinking*. 12th ed. (London: Pearson).
- Landsburg, Steven E. (1993) *The Armchair Economist: Economics and Everyday Life*. (Pocket Books).
- Landsburg, Steven E. (2008) *More Sex Is Safer Sex: The Unconventional Wisdom of Economics*. (Free Press).
- Levitt, Steven D. and Stephen J. Dubner (2009) *Freakonomics: A Rogue Economist Explores the Hidden Side of Everything*. (Harper).
- Levitt, Steven D. and Stephen J. Dubner (2009) *SuperFreakonomics: Global Cooling, Patriotic Prostitutes, and Why Suicide Bombers Should Buy Life Insurance*. (Morow).
- Miller, Roger LeRoy, Daniel K Benjamin and Douglass C North (2009) *The Economics of Public Issues*. (Addison Wesley).
- John Quiggin, *Zombie Economics*, Princeton University Press, 2010
- Wheelan, Charles and Burton G Malkiel (2010) *Naked Economics: Undressing the Dismal Science*. (St. Martin's Press).

Participants are encouraged to read newspapers, articles and blogs that comment on current issues to see how economic thinking is applied:

International economics blogs include:

- Tyler Cowen: blog: <http://www.marginalrevolution.com/>
- Joshua Gans: blog: <http://economics.com.au/>
- Paul Krugman: <http://krugman.blogs.nytimes.com>
- Gregory Mankiw: <http://gregmankiw.blogspot.com/>
- John Quiggin: <http://johnquiggin.com/>
- Brad DeLong: <http://delong.typepad.com/>
- “Economics in action” – a blog for new students of economics: <http://whystudyeconomics.ac.uk/blog/>
- “Economic roundtable” – a blog with a wide range of contributors on an equally wide range of international economic issues: <http://www.rtable.net/index/rt/economics/recent/>

New Zealand economics blogs include:

- Paul Walker: “Antidismal”: <http://antidismal.blogspot.com/>
- “Not PC”: <http://pc.blogspot.com/>
- Eric Crampton: <http://offsettingbehaviour.blogspot.com/>
- University of Auckland Economics Group: <http://uoaecongroup.wordpress.com/>
- “The Visible Hand in Economics”: <http://www.tvhe.co.nz/>
- “Croaking Cassandra” <http://croakingcassandra.com/>

11. Assessment

The course will be assessed and participants who pass the course will receive a certificate of achievement. The weighting for the assessment is as follows:

Assessment Task	
Essay	100
Total	100

Group Essay

Participants are required to write a group essay using economic theory and thinking to analyse a policy issue of their choice. Participants will be assigned to groups.

The purpose of the essay is to (1) deepen understanding of applying economic reasoning to public policy questions and (2) stimulate reflection on both the strengths and shortcomings of the economic approach.

A wide range of policy issues could be suitable topics for the essay, but the selected topic should be amenable to economic analysis. It could include a current policy issue being considered in an agency.

Proposals should start by raising a clearly stated policy question. Thus, to give an example, the essay should not just consist of writing all about “fat taxes”, but of using economics to tackle a clear policy question such as “Are taxes on food effective in reducing obesity?” Being clear about the objectives is indeed a “hard part” of the exercise.

Proposals for the essay topic must be submitted to the Course Presenter for approval by 9.00am on **22 February 2019**. Participants may wish to have thought in advance of proposals for topics.

The essay should:

- Define the problem and the underlying economic issue and rationale for government intervention
- Apply economic theory and reasoning to analyse the issue
- Draw on (and cite) both New Zealand and international literature and case studies
- Draw on studies that provide empirical evidence where relevant
- Identify and evaluate at least 2 policy options for dealing with the issue
- Discuss public policy options based on economic analysis and criteria
- Identify the strengths and limitations of an economic approach to the topic

All members of the group who contribute to the essay will be given the same mark. Group management is a matter for the group itself, including issues of free-rider behaviour. Participants may wish to note the email addresses of each member of the group as they will need to do further preparation and communicate as the essay is developed.

The word limit is 3,000 words (not including any footnotes and appendices). Words in excess of the stipulated word length will be ignored by the marker. Grading criteria are indicated in the assessment matrix below.

Criterion	Mark
Identification of the problem	20
Application of economic theory	20
Relevant use of literature and evidence	20
Critical evaluation of options	20
Strengths and weakness of the economic approach	10
Quality of writing and overall presentation	10
Total	100

The essay should be typed or neatly presented and submitted by email to the Course Administrator by close of business on the date **due 22 March 2019**. Participants should keep a copy of all submitted work.

Referencing

A well prepared essay should contain at least 15-20 pertinent references. It is critical to read widely for the essay and cite correctly the material drawn on.

Full acknowledgement of sources used is required – both for general referencing and for quotation. This includes acknowledgement of any internal documents or web sources relied upon. Where extracts are used directly these must be quoted and cited, where ideas are relied upon more broadly referencing is still needed.

Include a full reference list at the end of the assignment, listing in alphabetical order all references cited in the assignment, and in a standard format. The Harvard citation style is preferred and can be found at <http://www.lc.unsw.edu.au/onlib/ref1.html>. Do not use *op. cit.*, *ibid*, do not place references in footnotes and do not cite the lecture notes.

Plagiarism

Plagiarism is unacceptable in any format. Participants should be aware that software (e.g. “Turn-it-in”) may be used at the discretion of GEN to review material submitted. Serious penalties may be applied in cases of plagiarism.

12. Attendance Requirements

Full attendance by participants is expected and a record of attendance will be maintained in this subject. Where absence is unavoidable, notification to the Course Administrator as soon as possible is required. If a participant is absent for two sessions or more, additional work in lieu of attendance will be required to be eligible to pass this course.

13. Withdrawal from Course

If a participant is unable to attend, the registration may be transferred to another person by advising the Course Administrator in writing at least 2 days before the start of the course.

14. Course Lecturer



Veronica Jacobsen’s academic background includes degrees in both Law and Economics. Her teaching experience covers Law and Economics, Public Economics, Environmental Economics, and Macroeconomics. The application of economic analysis to policy issues has been a central focus of her professional career as a consultant and public servant. Her work in this area has covered such diverse areas as education, resource and environmental management, science policy, social policy, labour markets, statutory marketing, professional regulation as well as

justice issues. Veronica is currently Director, Science, and Innovation & International Branch of the Ministry of Business, Innovation and Employment.

15. About the Government Economics Network

The Government Economics Network was established in 2011 to promote the better use of economics in the public sector in New Zealand. The network has three aims:

- 1) support economics training and professional development;
- 2) develop linkages between economists; and
- 3) strengthen economic advice to government.

For further information please visit our website: www.gen.org.nz