



**SECOND SEMESTER 2021-2022**

Course Handout Part II

Dated: 15-01-2022

In addition to part I (General Handout for all courses appended to the timetable) this portion gives further specific details regarding the course.

**Course No.** : **ECON F343**

**Course Title** : **Economic Analysis of Public Policy**

**Instructor-in-Charge** : **DURGESH CHANDRA PATHAK**

**1. Course Objective:**

This course explores the role of economic analysis in the design, evaluation and implementation of public policy. The course discusses epistemological tenets of public policy analysis and prepares the students to be able to apply a framework of social welfare analysis to various questions pertaining to public policy.

**2. Text Book:** Bellinger, William K: *Economic Analysis of Public Policy*, Routledge, London and New York, 2007.

**3. Reference Books:**

**R1:** Friedman, Lee S: *The Microeconomics of Public Policy Analysis*, Princeton University Press, 2002.

**R2:** Fisher, Frank, Gerald J Miller, Mara S. Sidney: *Handbook of Public Policy Analysis: Theory, Politics and Methods*, CRC Press, Taylor & Francis Group, Boca Raton, London, New York, 2007.

**R3:** Just, E Richard, Darrell L Hueth, Andrew Schmitz: *The Welfare Economics of Public Policy: A Practical Approach to Project and Policy Evaluation*, Edward Elgar Publishing Limited, 2004.

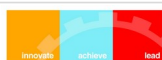
**R4:** Fuguitt, Diana and Shanton J Wilcox: *Cost-Benefit Analysis for Public Sector Decision Makers*, Quorum Books, Westport, Connecticut, London, 1999.

**R5:** Hausman, M Daniel and Michael S McPherson: *Economic Analysis, Moral Philosophy and Public Policy*, 2/e, Cambridge University Press, Cambridge, 2007.

**R6:** Rosen, Harvey S and Ted Gayer, *Public Finance*, 8/e, Tata McGraw Hill, New Delhi, 2012.

**R7:** Cullis, John and Philip Jones, *Public Finance and Public Choice*, Oxford University Press, India, 2009.

**4. Course Plan:**



Lecture Number	Learning Objectives	Topics to be Covered	Chapter in the Text Book
I	Initiation to Public Policy analysis		
1-3	1. What is Public Policy?	<ul style="list-style-type: none"> <li>i. The goals of public policy</li> <li>ii. The steps in policy analysis</li> <li>iii. Views of government and the roles of the policy analyst</li> <li>iv. Critical thinking as a policy tool</li> <li>v. Critical thinking about policy analysis</li> </ul>	TB, R1 & R4
II	Microeconomic foundations of Public Policy analysis		
4-10	2. Perfect Competition, Efficiency, and Welfare		
		<ul style="list-style-type: none"> <li>i. Consumer and Producer Surplus</li> <li>ii. Concept of Efficiency: Pareto Optimality and other concepts</li> <li>iii. Does Perfect competition entail efficiency?</li> </ul>	TB + R1+ Class notes
11-12	3. Equity: concept and trade-off with efficiency		
13-17	4. The moral compass: Using theories of ethics in analyzing equity-efficiency trade-off		
		<ul style="list-style-type: none"> <li>i. The idea of the social contract</li> <li>ii. Some theories of ethics: Utilitarianism, Rawls, Nozick; bibliographic note on the lead philosophers: Jeremy Bentham, John Rawls, Robert Nozick.</li> </ul>	TB + R1+ Class notes
18-22	5. What happen when the world is imperfect		
	Sources of market imperfection	<ul style="list-style-type: none"> <li>i. A limited number of buyers and sellers</li> <li>ii. Information asymmetry</li> <li>iii. Entry and exit costs</li> <li>iv. Public goods: discuss the idea of non-rivalry, non-excludability, and congestion</li> <li>v. Externalities</li> <li>vi. Complementarities: when multiple equilibria coexist.</li> </ul>	TB, R4 & R5
23-28	6. Can government intervention help?		TB, R4 & R5
	Forms of government intervention	<ul style="list-style-type: none"> <li>i. Taxes</li> <li>ii. Subsidies</li> <li>iii. Price floor</li> <li>iv. Price ceiling</li> <li>v. Mixing more than one policy to get a better outcome</li> <li>vi. Case study: PDS and TPDS</li> </ul>	TB, R4 & R5
29-33	7. Games governments play: the Public Choice theory		TB, R4 & R5

		<ul style="list-style-type: none"> <li>i. Voting rules</li> <li>ii. Voting paradox</li> <li>iii. Logrolling</li> <li>iv. Median voter and its implications</li> <li>v. Rent-seeking</li> <li>vi. Regulatory capture</li> <li>vii. X-inefficiency</li> </ul>	TB, R4 & R5
III	Other Tools for Policy Analysis		
34-37	<b>Tools for analyzing public policy</b>	<b>A. An introduction to benefit–cost analysis</b>	TB, R3
		i. The process of benefit–cost analysis	TB, R3
		ii. Decision criteria for benefit–cost analysis	TB, R3
		iii. Types of policy decisions	TB, R3
		iv. Benefits and costs using efficiency concepts	TB, R3
		v. Cost-effectiveness analysis	TB, R3
		vi. Weighted net benefits	TB, R3
		<b>B. Net benefits over time and present value</b>	TB, R3
		i. Investment versus saving	TB, R3
		ii. If you save: compound interest	TB, R3
		iii. If you invest: foregone interest and present value	TB, R3
		iv. The present value formula	TB, R3
		v. Present value with infinitely long net benefits	TB, R3
		vi. Alternatives to present value	TB, R3
		vii. Inflation and the discount rate	TB, R3
		viii. Choosing among alternative projects	TB, R3
		<b>C. Choosing a discount rate</b>	TB, R3
		i. The ideal market for loans	TB, R3
		ii. Distortions in the loans market	TB, R3
		iii. The shadow price of capital method	TB, R3
		iv. An extended case study	TB, R3
		v. The weighted discount rate	TB, R3
		vi. Other issues in choosing a discount rate	TB, R3
		vii. Long-term policies and intergenerational equity	TB, R3
		<b>D. Policy analysis involving risk and uncertainty</b>	TB, R3
		i. Measuring risk and uncertainty	TB, R3
		ii. Expected value	TB, R3
		iii. Decision trees	TB, R3
		iv. The expected utility model	TB, R3
		v. Risk aversion and the willingness to pay for insurance	TB, R3
		vi. Option value and expected net benefits	TB, R3
		vii. Risk and the discount rate	TB, R3
		viii. Uncertainty and policy analysis	TB, R3
		<b>E. The value of life and other non-marketed goods</b>	TB, R3
		i. Methods of valuing non-marketed goods	TB, R3
		ii. Explaining the value of life	TB, R3

		iii. <i>How to estimate the value of life</i>	TB, R3
		iv. <i>Case study: child safety seats in autos</i>	TB, R3
		v. <i>Another case study: child safety seats in airplanes</i>	TB, R3
		vi. <i>Alternatives to the dollar value of life</i>	TB, R3
		vii. <i>Other non-marketed goods</i>	TB, R3
		<b>F. Economic impact analysis: macroeconomics in a micro world</b>	TB, R3
		i. <i>An overview of economic impact analysis</i>	TB, R3
		ii. <i>Estimating direct spending</i>	TB, R3
		iii. <i>The Keynesian multiplier and secondary economic impacts</i>	TB, R3
		iv. <i>Economic base models</i>	TB, R3
IV	Policy Analysis Examples		
38-40	<b>Public Policy Cases</b>	Urban Transportation Policy	TB
		Pollution Control Policy	TB
		Poverty & Income Support Policy	TB
Total Classes	<b>40</b>		

## 5. Learning Outcomes:

### Module I: Initiation to Public Policy analysis

It is expected that after completing this module, the student should be able to discuss the meaning, relevance and goals of public policy analysis.

### Module II: Microeconomic foundations of Public Policy analysis

It is expected that after completing this module, the student should be able to understand various concepts of economics used in policy analysis process, understand and analyze the ethics behind policy analysis processes, analyze the welfare implications of policies, compare various policies on the basis of welfare changes involved, analyze the effect of taxes/subsidies on welfare of consumers and producers, understand the nuances of public choice theory and policy making process, and analyze the effects of government intervention in imperfect markets.

### Module III: Other Tools for Policy Analysis

It is expected that after completing this module, the student should be able to discuss various steps of cost-benefit analysis, analyze various public projects using different appraisal criterion, understand the nuances involved in choosing a discount rate in presence of market imperfections, risk and uncertainty, discuss valuation of non-marketed goods and its effect on cost-benefit analysis, and use macroeconomic concepts in policy analysis.

### Module IV: Policy Analysis Examples

This module utilizes the learning in previous modules for analyzing some policy cases. It is expected that after completing this module, the student should be able to critically analyze policy cases using tools learnt in the course.

## 6. Evaluation Scheme

EC No.	Components	Duration	Weight age (%)	Date, Time & Venue	Nature of Component
1.	Mid-Semester Exam		25	14/03 9.00am to 10.30am	CB
2.	Quizzes		35		OB
3.	Assignments				OB
4.	Comprehensive Exam.		40	21/05 FN	CB

**7. Chamber Consultation Hour:** To be announced in class

**8. Notices** shall be displayed on CMS/LTC/Department notice board.

**9. Make-up policy:** Make-up will be given only on Doctor's/Warden's recommendation and with prior (at least 01 day before the test/exam) permission of the Instructor-in-Charge/Instructor. Request for make-up made by phone/sms or during/after the test/exam would NOT be entertained at all. No make-up shall be granted for quizzes.

**10. Academic Honesty and Integrity Policy:** Academic honesty and integrity are to be maintained by all the students throughout the semester and no type of academic dishonesty is acceptable.

**Instructor-in-Charge**

**ECON F343**