Birla Institute of Technology & Science, Pilani
Hyderabad Campus

SECOND SEMESTER 2019-2020

Course Handout Part II

Dated: 06-01-2020

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	Policy Analysis and Ethics		
01-10	**Policy analysis, politics, and ethics**	**A. The meaning of policy analysis**	
		i. The goals of public policy	TB, R1 & R4
		ii. The steps in policy analysis	TB, R1 & R4
		iii. Views of government and the roles of the policy analyst	TB, R1 & R4
		iv. Critical thinking as a policy tool	TB, R1 & R4
		v. Critical thinking about policy analysis	TB, R1 & R4
		B. Ethics for policy analysts	TB, R1 & R4
		i. Ethical goals	TB, R1 & R4
		ii. Utilitarianism	TB, R1 & R4
		iii. John Rawls and the difference principle	TB, R1 & R4
		iv. Robert Nozick and the ethics of the minimalist state	TB, R1 & R4
		and ethical theory	TB, R1 & R4
II	Economics of Policy Analysis		
11-21	**Economics for policy analysts**	**A. A review of markets and rational behavior**	TB
		i. Review of basic concepts in Economics	TB + Class notes
		ii. Rational consumer choice and the role of incentives	TB
		iii. Incentives and policy problems	TB
		iv. The limits of consumer surplus	TB
		B. Efficiency and imperfect markets	TB, R4 & R5
		i. What is efficiency?	TB, R4 & R5

		ii.	*Pareto optimality*	TB, R4 & R5
		iii.	*Other efficiency concepts*	TB, R4 & R5
		iv.	*The competitive market and Pareto optimality*	TB, R4 & R5
		v.	*Market imperfections and inefficiency*	TB, R4 & R5
		vi.	*Numerical examples of net gains and deadweight loss*	TB, R4 & R5
		vii.	*Public goods*	TB, R4 & R5
		C.	**Efficiency and the role of government**	TB, R4 & R5
		i.	*The minimum role of government*	TB, R4 & R5
		ii.	*Taxes in competitive markets*	TB, R4 & R5
		iii.	*Other forms of government involvement*	TB, R4 & R5
		iv.	*A case study: agricultural subsidies*	TB, R4 & R5
		v.	*Government intervention in imperfect markets*	TB, R4 & R5
		vi.	*Public choice and government failure*	TB, R4 & R5
III	Other Tools for Policy Analysis			
22-35	**Tools for analyzing public policy**	**A.**	**An introduction to benefit–cost analysis**	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.	**Net benefits over time and present value**	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.	*Examples of federal government discount rates*	TB, R3

		ix.	*Choosing among alternative projects*	TB, R3
		C.	**Choosing a discount rate**	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
		D.	**Policy analysis involving risk and uncertainty**	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
		E.	**The value of life and other non-marketed goods**	TB, R3
		i.	*Methods of valuing non-marketed goods*	TB, R3
		ii.	*Explaining the value of life*	TB, R3
		iii.	*How to estimate the value of life*	TB, R3
		iv.	*Case study: child safety seats in autos*	TB, R3
		v.	*Another case study: child safety seats in airplanes*	TB, R3
		vi.	*Alternatives to the dollar value of life*	TB, R3
		vii.	*Other non-marketed goods*	TB, R3
		F.	**Economic impact analysis: macroeconomics in a micro world**	TB, R3
		i.	*An overview of economic impact analysis*	TB, R3
		ii.	*Estimating direct spending*	TB, R3
		iii.	*The Keynesian multiplier and secondary economic impacts*	TB, R3
		iv.	*Economic base models*	TB, R3
		v.	*Input–output models*	TB, R3

		vi. Measuring indirect and induced spending	TB, R3
		vii. Measuring an institution's effect on local government	TB, R3
		viii. The role of spending surveys	TB, R3
		ix. Economic impact case studies	TB, R3
IV	Policy Analysis Examples		
36-41	**Public Policy Cases**	*Urban Transportation Policy*	TB
		Pollution Control Policy	TB
		Poverty & Income Support Policy	TB
Total Classes	**41**		

5. Learning Outcomes:

Module I: Policy Analysis and Ethics

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

Module II: Economics of 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, 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 leant in the course.

6. **Evaluation Scheme**

EC No.	Components	Duration	Weightage (%)	Date, Time & Venue	Nature of Component
1.	Mid-Semester Exam	90 min.	35	5/3 3.30 - 5.00 PM	OB
2.	Quiz-I	-	10	To be announced	CB
3.	Quiz-II	-	10	To be announced	CB
6.	Comprehensive Exam.	3 hrs.	45	11/05 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