Birla Institute of Technology & Science, Pilani
Hyderabad Campus

SECOND SEMESTER 2023-2024
Course Handout Part II

Dated: 09-01-2024

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*, 2nd edition, 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.
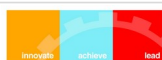
R4:   Fuguitt, Diana and Shanton J Wilcox: *Cost-Benefit Analysis for Public Sector Decision Makers*, Quorum Books, Westport, Connecticut, London, 1999.

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?	*i.* *ii.* *iii.* *iv.* *v.*	*The goals of public policy* *The steps in policy analysis* *Views of government and the roles of the policy analyst* *Critical thinking as a policy tool* *Critical thinking about policy analysis*	TB, R1 & R4
II	Microeconomic foundations of Public Policy analysis			
4-10	2. Perfect Competition, Efficiency, and Welfare			
		i. *ii.* *iii.*	*Consumer and Producer Surplus* *Concept of Efficiency: Pareto Optimality and other concepts* *Does Perfect competition entail efficiency?*	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			
		i. ii.	*The idea of the social contract* *Some theories of ethics: Utilitarianism, Rawls, Nozick; bibliographic note on the lead philosophers: Jeremy Benthom, John Rowls, Robert Nozick.*	TB + R1+ Class notes
18-22	5. What happen when the world is imperfect			
	Sources of market imperfection	*i.* *ii.* *iii.* *iv.* *v.* vi.	*A limited number of buyers and sellers* *Information asymmetry* *Entry and exit costs* *Public goods: discuss the idea of non-rivalry, non-excludability, and congestion* *Externalities* *Complementarities: when multiple equilibria coexist.*	TB, R4 & R5
23-28	6. Can government intervention help?			TB, R4 & R5
	Forms of government intervention	*i.* *ii.* *iii.* *iv.* *v.* vi.	*Taxes* *Subsidies* *Price floor* *Price ceiling* *Mixing more than one policy to get a better outcome* *Case study: PDS and TPDS*	TB, R4 & R5
29-33	7. Games governments play: the Public Choice theory			TB, R4 & R5

		i. *Voting rules*	TB, R4 & R5
		ii. *Voting paradox*	
		iii. *Logrolling*	
		iv. *Median voter and its implications*	
		v. *Rent-seeking*	
		vi. *Regulatory capture*	
		vii. *X-inefficiency*	
III	Other Tools for Policy Analysis		
34-37	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. *The idea of present value*	TB, R3
		ii. *Present value with infinitely long net benefits*	TB, R3
		iii. *Alternatives to present value*	TB, R3
		iv. *Inflation and the discount rate*	TB, R3
		v. *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. *Alternatives to the dollar value of life*	TB, R3
		v. *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
IV	Policy Analysis Examples		
38-40	Public Policy Cases	Urban Transportation Policy	TB
		Pollution Control Policy	TB
		Poverty & Income Support Policy	TB
Total Classes	**40**		

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 leant in the course.

6. Evaluation Scheme

EC No.	Components	Duration	Weight age (%)	Date, Time & Venue	Nature of Component

1.	Mid-Semester Exam	90 mnts		16/03 - 2.00 - 3.30PM	CB
			30		
2.	Quizzes (surprise/announced)		35		OB
3.	Assignments				OB
4.	Comprehensive Exam.	180	35	18/05 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 granted only on genuine grounds and if prior permission is taken through official email only. Request for make up 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