Microeconomics for Public Policy

Lecturers
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Number of credits: 3

Course Description
Microeconomics is a branch of economics that focuses on the question how individuals (or households) and firms make decisions to allocate limited resources in market interactions. Individual choices and private interests are behind most socio-economic processes. The understanding of the behavioral aspects of socio-economic processes is indispensable for good policymaking. This course provides a sound microeconomic foundation for students wishing to become proficient civil servants, policy experts, or analysts in the field of public policy. It will equip the students with a thorough understanding of the microeconomic theory and thus enable them to understand and analyze socio-economic processes and relationships as driven by economic behavior at the micro level. Throughout the course, specific public policy issues will be studied with the objective to motivate and demonstrate the pertinence of economic analysis for sound public policy making.

Objectives and outcomes
The course fosters a comprehensive understanding of the theoretical microfoundations of economic behavior and their repercussions for sound policy making. By the end of the course, a successful student will be equipped with an effective toolset to analyze public policy issues and proposals from the microeconomic perspective. Students shall improve their analytical skills through assignments fostering theoretical as well as policy aspects; and their argumentative skills through in-class discussions. Students’ practical skills will be solidified by means of an applied microeconomic policy project.

Course structure
The course consists of three blocs: Microeconomic analysis; Microeconomic decisions; and Microeconomic policy project.

Two two-hour classes will take place each odd week and one two-hour class will take place every even week. Interactive lectures will serve to explain and discuss the core course material. During the last part of the course (Microeconomic policy project) emphasis will be put on practical skills and consultations.

Grading
Evaluation will be based on the ability to make use of the material covered in the course and draw on the relevant theory to analyze policy issues.

The course grade will be determined as a weighted average of the following components:
Exam 1 – 40%
Exam 2 – 30%
Microeconomic Policy Project – 30%

Two practice problem sets will be distributed during the course to facilitate preparation for the exams. These will not be graded.

- Attendance is mandatory and will be checked regularly.
- Given the concentration of material, you are strongly encouraged to read the assigned chapters prior to lectures.
- The exam dates will be announced in due course.
- Make-up for the exams will be allowed only if there is a valid university excuse.
- Assignments and assignment deadlines will be announced in due course. Assignments submitted late will be graded down by 50%. Submitting each assignment is a prerequisite for passing the course.
- The policy of zero tolerance to academic dishonesty (defined in the student manual and in CEU’s code of ethics) will be strictly applied. No communication between students; books, notes or any other illegitimate aids or technical devices will be allowed during the exams.
- It is strongly recommended that students take every assignment and exam seriously. There is no chance to make up for forgone points.
- It is the student’s responsibility to understand these rules and consult the instructor in case of any doubts; as well as in case of any problems with understanding the studied topics.

As is the case in all economics classes, mathematical notation and techniques along with graphical representations will be used in this class. All efforts will be made to make mathematical and economic concepts comprehensible to students who do not have an economic background.

**Course Readings**

Required readings for all students are specified in the course outline and are mostly based on:

- Lecture notes (including any material not covered in GM or SB).

Supplementary material for advanced students:

12 copies of the BB book are available on reserve in the library. Older editions of the book can also be used. The necessary material from the MG book will be made available on the e-learning platform.

Some additional books that could be relevant but are not required for this class are:

- James, D. Morrow. Game Theory for Political Scientists, Princeton University Press, 1994

Course Outline

BLOC I: Microeconomic analysis (8 classes)

(1) Introduction: Economics as a science and policy instrument (GM 1 and 2)
- Interdependence and gains from trade (GM3)
- Supplement: Constrained Optimization, Equilibrium Analysis

(2) The Market Forces of Supply and Demand and Elasticities (GM 4 and 5)

(3) Supply, Demand, and Government Policies (GM 6)

(4) Consumers, Producers and the Efficiency of Markets (GM 7)
- Application: International Trade (GM 9)

(5) The Costs of Taxation (GM 8)

(6) The Costs of Production, Firms in Competitive Markets, and Monopoly (GM 13, 14, 15, 16, 17 14)

(7) Wrapping up

(8) Exam 1

BLOC II: Microeconomic decisions (6 classes)

(9) Individual and Group Choice (GM 21, SB4)

(10) Cooperation & Games of Strategy (SB 8 and 9)

(11) Externalities and Public Goods (SB 10)
- Supplement: BB 17, GM 10 and 11

(12) Bureaucracy and Government (SB 13)

(13) Risk, information, and irrationality (BB15) and Wrapping Up

(14) Exam 2

BLOC III: Microeconomic policy project (2 classes)

Students will have an opportunity to practice their microeconomic skills in a simulation of real-life policy making. Four groups, each consisting of about 12-14 students, will be formed. Each group will pick one of the following broad policy proposals:
- A proposal to introduce a minimum wage in a low-income country
- A proposal to tax luxury goods
- A proposal to restrict patent protection of drugs
- A proposal to offer subsidies for production of green cars
- A proposal to bail-out the largest national bank
- A proposal to cut wages in the health care sector
- A proposal to tax fat food in order to decrease occurrence of cardiovascular diseases

Each group will have a first round of discussion about the proposal to agree on its context. This should address what policy objectives are considered and in what type of country (to be considered: general economic and political situation, indebtedness, financial markets and investment climate, labor market situation, demographic situation and migration, welfare state, etc). This will be summarized in a 500-600 word note to be sent to the instructor for check. The deadline for sending the note will be announced in due course.

Then each group will be further divided into subgroups of equal size. One sub-group will write a policy proposal advocating in favor of the policy proposal. The other sub-group will write a critique arguing against the policy proposal.

The advocacy in favor of and against the measures with respect to a particular policy issue should rely on different aspects of material covered in the class throughout the whole duration of the course.

Week 11 will provide for joint work in groups and discussions with the instructor. In week 12 four debates between the groups of proponents and opponents, each lasting 50 minutes.