The state – the machinery and power of the state – is a potential resource or threat to every industry in the society. With its power to prohibit or compel, to take or give money, the state can and does selectively help or hurt a vast number of industries. That political juggernaut, the petroleum industry, is an immense consumer of political benefits, and simultaneously the underwriters of marine insurance have their more modest repast.

George J. Stigler
“The Theory of Economic Regulation,” 1971

Explanations exist; they have existed for all time; there is always a well-known solution to every human problem — neat, plausible, and wrong.

H.L. Mencken
"The Divine Afflatus," 1917

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Office hours: TBA

Class Time: Tues/Thurs, 10:10AM to 11:25AM
Classroom: Savage Hall, Room 200

Academic Accommodations: Students with disabilities are entitled to equal access in all university programs and activities. Students with disabilities should work with Student Disability Services (SDS) (sds_cu@cornell.edu) to determine their best strategies for ensuring access. The
SDS website is [http://sds.cornell.edu/](http://sds.cornell.edu/). SDS will provide you with an accommodation letter that will enable me to work with you on the logistics of appropriate academic accommodations. Once you have the letter, please make an appointment with me to discuss your requirements as soon as possible.

**Course Description:** This course examines standard rationales for and effects of government intervention in the marketplace. We begin with a review of marginal analysis that determines the optimal or allocatively efficient amount of any activity. We then examine the basic model of how the price mechanism allocates resources via a market. We move on to policy rationales for government intervention in a market. Those include externalities, public goods, natural monopoly, and contracting problems, among others. We consider various forms of intervention, including taxes and subsidies, industry and economy-wide regulation, as well as innovative approaches such as tradable property rights and permits.

Both normative and positive theories of market regulation are examined. Those include the capture, economic (or private interest), pure public interest, and hybrid theories. Those approaches are applied to specific types of regulation, including individual industry-level regulation (e.g. electricity, water, trucking, postal services), as well as to broader social regulation (e.g. health, safety, environmental). The effect of deregulation and other regulatory reforms in several industries will be assessed. Current policy issues related to government intervention in the marketplace will also be discussed.

**Course structure:** There are two main elements to this course: (i) lecture material; and (ii) guest speakers. Master’s degree students will participate in a third element of in-class presentations. There are also three broad aspects of the lecture material: (i) review of economic concepts; (ii) theories of government intervention in the marketplace; and (iii) empirical analysis of various interventions.

**Learning Objectives:** Students will acquire an enhanced understanding of the motivation and rationale for various types of government intervention in a market. They will better appreciate the standard set of rationales for government intervention, as well as the importance of history and institutional arrangements in thoroughly understanding that intervention. Students will also better appreciate the actual (sometimes in contrast to the intended) effects of intervention, and why some types of intervention have been reduced or eliminated over time. This course offers an overview of the key issues to consider when assessing public policy toward the marketplace. It also provides a useful foundation for students intending to pursue further study in public policy, public administration, law, consulting, or business.

**Learning Outcomes:** Students will obtain the following specific learning outcomes from taking this course:

*Outcome 1:* Students will appreciate the motivation and rationale for various types of government intervention in a market.

*Outcome 2:* Students will be able to understand and explain the standard set of rationales for government intervention, as well as the importance of institutional and legal arrangements to thoroughly understand that intervention.

*Outcome 3:* Students will be able to explain the actual effects of intervention and why some forms of intervention have been modified or eliminated over time.
**Textbooks:** The following textbooks will be used in addition to a variety of other readings. Only the MBN textbook is required. Both the MBN and the NGM books are available in the bookstore. Copies will be placed on reserve in Mann Library:


Several key readings for this course are from VVH. NGM offers a review of the basic tools of economics necessary to analyze government policy. MBN provides a readable overview of government intervention in various spheres of economic activity. I will assume that students have taken a standard course in intermediate microeconomics and that the chapters in NGM, and thus the first few lectures, will be a review. In addition to these texts, there will be several outside readings. Those readings assume familiarity with basic statistical techniques. Exams will not ask detailed questions about such techniques, but students should be familiar with the main points of the readings. Students should consult introductory statistics and economics textbooks for additional background as necessary. Prior editions of these textbooks are acceptable if the equivalent chapters are consulted.

We will regularly examine current issues related to government and the marketplace as discussed in popular publications. Particularly relevant sources include the *Wall Street Journal*, the *Financial Times*, business section of the *New York Times*, and *The Economist*, among others. I am grateful to students who point out recent relevant articles for the topics we are studying.

**Blackboard:** Please be sure to sign up for and check Blackboard frequently for announcements, lecture slides, problems sets, and other information. I will utilize the Announcements function regularly, and will only email students with particularly important information. All PowerPoint slides will be posted on Blackboard.

**Class Meetings and Format:** The class format includes lectures assisted by both PowerPoint and Blackboard, occasional use of the document camera to display recent newspaper reports and essays, and student in-class discussion. Attendance at all class meetings is critical; class attendance and participation is an important part of the grade.

**Academic Integrity:** Fairness to your fellow students requires that late homework and unexcused absences from exams result in a loss of points. Each student in this course is expected to abide by the Cornell University Code of Academic Integrity. Although discussion of problem set questions is permitted, any work submitted by a student in the course for academic credit will be the student’s own work. If there are any questions about the code, see: [http://www.cornell.edu/University Faculty/docs/main.html](http://www.cornell.edu/University Faculty/docs/main.html).

**Prerequisites:** This course relies on fundamental economic concepts to analyze government intervention in economic activity. It will also examine papers that consider the effects of policies
empirically. Students should have taken an intermediate microeconomics course, such as CRP 5122, PAM 2000, or ECON 3130 prior to this course.

**Grading:** Fairness in grading is of the highest priority. We will ensure that examination and homework questions accurately test the material from the lectures and the readings. We will work hard to ensure accurate and impartial grading of all submitted work. Fairness dictates that any appeal of grades result in re-grading of the entire exam or problem set in question, rather than only a specific question. Requests for re-grading must be submitted in writing within 48 hours of the work’s return. You will receive a response in writing.

Grading for PAM 3170 will differ from PAM 5170. Graduate students will have additional requirements. Class grades for PAM 3170 will be based on:

1. Five problem sets, collectively constituting 12.5 percent of the final grade
2. Class attendance, participation, written guest speaker questions, and a variety of brief in-class written assignments, constituting 12.5 percent of the final grade
3. Two in-class prelim examinations, each constituting 25 percent of the final grade
4. A *comprehensive* final exam, constituting 25 percent of the final grade

Class grades for PAM 5170 will be based on:

1. Five problem sets, collectively constituting 10 percent of the final grade
2. Class attendance, participation, written guest speaker questions, and a variety of brief in-class written assignments constituting 10 percent of the final grade
3. Two in-class prelim examinations, each constituting 22.5 percent of the final grade
4. A *comprehensive* final exam, constituting 25 percent of the final grade
5. A group project resulting in a 20 to 25 page term paper analyzing a particular infrastructure policy problem (with in-class presentation), constituting 10 percent of the final grade.

Group projects will be discussed in more detail in a separate handout. Group projects should apply some of the key concepts discussed in the course to a policy issue of the students’ choosing. They should incorporate several of the following concepts (which we will discuss) into the analysis:

- Careful attention to how interventions affect economic efficiency (i.e. the “size of the pie”) versus the distribution of wealth (i.e. how existing wealth is divided up among various groups). This implies a focus on the winners and losers from a particular intervention.
- Consideration of the policy’s historical background; how did it come to be adopted?
- Knowledge of the institutional details surrounding the policy that you are studying (that is, “knowing what you are talking about”).
- Examination of the available data (of various types, such as both qualitative and quantitative) that will help to understand the policy and its effects; i.e., an attempt to measure wherever possible.
- A focus on the role of group size, and how small, well-organized groups can “win” through intervention and redistribution at the expense of large, poorly organized groups.
- A concern for the unintended consequences of a particular policy intervention.
### PAM 3170 and PAM 5170

#### Spring 2016 Lecture Schedule

<table>
<thead>
<tr>
<th>Month</th>
<th>Day</th>
<th>Curriculum</th>
<th>Reading Due</th>
<th>Work Due</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>28</td>
<td>Introductions, course outline, course structure</td>
<td>Syllabus; watch</td>
<td></td>
</tr>
<tr>
<td>February</td>
<td>2</td>
<td><strong>Lecture 1.</strong> Marginal analysis; Basic market model; how markets allocate resources; review of key economic concepts;</td>
<td>NGM, Ch. 1, 2, 4</td>
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<td></td>
<td>4</td>
<td><strong>Lecture 2.</strong> Analysis of the marketplace: Consumer and producer surplus;</td>
<td>NGM, Ch. 4, 7</td>
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<td></td>
<td>9</td>
<td><strong>Lecture 3.</strong> Normative reasons for government intervention; externalities, public goods</td>
<td>NGM Ch. 10, Ch. 11</td>
<td></td>
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<tr>
<td></td>
<td>11</td>
<td><strong>Lecture 4.</strong> Coasian analysis of the externality problem</td>
<td>C1; SNSC</td>
<td>Prob. Set 1 Due</td>
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<tr>
<td></td>
<td>16</td>
<td><strong>February Break: No Class Meeting</strong></td>
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<tr>
<td></td>
<td>18</td>
<td><strong>Lecture 5.</strong> Coasian analysis and radio spectrum</td>
<td>C1, HPS, C3</td>
<td></td>
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<tr>
<td></td>
<td>23</td>
<td><strong>PRELIM ONE</strong></td>
<td>All material in Lec 1-5</td>
<td></td>
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<tr>
<td>March</td>
<td>1</td>
<td><strong>Lecture 7.</strong> Positive theories of regulation</td>
<td>VVH, Ch. 10</td>
<td></td>
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<td></td>
<td>3</td>
<td>Guest Speaker: Thomas Madison, former Executive Director, New York State Thruway Authority</td>
<td>Reading TBA</td>
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<tr>
<td></td>
<td>8</td>
<td><strong>Lecture 8.</strong> Positive theories of regulation</td>
<td>VVH, Ch. 11, 12; VVH, Ch. 13, 15,</td>
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<td></td>
<td>10</td>
<td><strong>Lecture 9.</strong> Regulation of natural monopoly</td>
<td>G-I; VVH, Ch. 13, 14; D, AJ</td>
<td>Prob. Set 2 due</td>
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<td>15</td>
<td><strong>No class meeting</strong></td>
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<td>17</td>
<td><strong>Lecture 10.</strong> Regulation of natural monopoly; price/entry regulation</td>
<td>WO; C2</td>
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<td></td>
<td>22</td>
<td><strong>Lecture 11.</strong> State-owned enterprises; US Postal Service;</td>
<td>VVH, Ch. 14</td>
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<td></td>
<td>24</td>
<td><strong>Lecture 12.</strong> Franchise bidding; telecommunications regulation</td>
<td></td>
<td>Prob. Set 3 due</td>
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<tr>
<td>April</td>
<td>5</td>
<td><strong>Lecture 13.</strong> Regulating Potentially Competitive Markets; deregulation</td>
<td>K-S; VVH, Chapters 16, 17</td>
<td></td>
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<td></td>
<td>7</td>
<td><strong>PRELIM TWO</strong></td>
<td>All Material; Lec. 6 to 13; plus guest speaker</td>
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<td></td>
<td>12</td>
<td>Guest Speaker: Dr. Paula Tkac, Atlanta Fed</td>
<td>Reading TBA</td>
<td>Hand in (hard copy only) at least two questions to ask this guest speaker</td>
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<td>14</td>
<td><strong>Lecture 14.</strong> Regulating Potentially Competitive Markets; deregulation</td>
<td>K-S; VVH, Chapters 16, 17</td>
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<td>19</td>
<td><strong>Lecture 15.</strong> Overview of Health and Safety Regulation</td>
<td>VVH, Chapter 19</td>
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<tr>
<td>Lecture</td>
<td>Date</td>
<td>Topic</td>
<td>Notes</td>
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<tr>
<td>21</td>
<td>Lecture 16: Overview of Health and Safety Regulation; begin Environmental Regulation</td>
<td>VVH, Chapter 19</td>
<td>Prob. Set 4 due</td>
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<tr>
<td>26</td>
<td>Lecture 17: Environmental Regulation</td>
<td>VVH, Chapter 19, 21, L&amp;M</td>
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<tr>
<td>28</td>
<td>Lecture 18: Product Safety</td>
<td>VVH, Ch. 22, P1, P2</td>
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<tr>
<td>May 3</td>
<td>Lecture 19: The All-Volunteer Military</td>
<td>W&amp;A</td>
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<tr>
<td>5</td>
<td>Presentation of student group papers</td>
<td>TBA</td>
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<tr>
<td>10</td>
<td>Presentation of student group topics</td>
<td>TBA</td>
<td>Prob. Set 5 due</td>
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</tbody>
</table>

**Final Examination:** Date/time TBD

**Comprehensive**

All assigned readings, lecture notes, guest lecture material, and class discussions

**Abbreviations for readings:**

G-I = Jose Gomez-Ibanez, “Monopoly as a Contracting Problem,” in Regulating Infrastructure
Examples of Term Paper topics

Students may choose any topic for their Policy Briefs that fits within the broad rubric of this class (except for health care, which is more thoroughly covered in other PAM classes). Topics can be taken from the MBN book, the VVH book, or from current policy debates. Some examples of policy issues that could be addressed in Policy Memos and Policy Briefs include:

- **Does advertising lower prices?** See the *44 Liquormart* paper for a solid empirical test of this proposition
- **Stock exchange regulation:** Did deregulation of stock exchanges improve customer service? See VVH Chapter 16 on this and JLE article entitled “Change at the Exchange.”
- **Interest rate controls throughout history:** why do we have usury laws (see VVH)
- **Illegal Drugs:** consider the costs and benefits of drug regulation. Economists have often made a case for legalization and treating drug use as a health problem; should we legalize (this could be linked to recent state action to legalize marijuana)?
- **Prostitution:** The internet has lowered significantly the transaction costs associated with a wide array of transactions including these. Are current policies toward prostitution efficient? Are reforms called for in light of technological change?
- **Municipal bankruptcy:** What policy issues do over-extended municipal budgets, and the attendant bankruptcies (Detroit, Stockton, Harrisburg, Chicago (?) etc.) raise? Will this
affect municipal borrowing rates into the future? What steps can be taken to avoid this in the future

- **Government Accounting Standards**: The application of Generally Accepted Accounting Principles (GAAP) to federal and state government accounting: will this help avoid future taxpayer risk?

- **Real-world use of Pigouvian taxes**: Can anyone provide examples of the use of Pigouvian taxes and/or subsidies in the policy world?

- **Self-driving cars**: Self-driving cars are now a technological reality. They are street legal on Florida, California, and Nevada. How close are we to having self-driving cars used widely by drivers? What policy issues do they raise? Suppose two self-driving cars collide; who is at fault? Should 10-year-old children be allowed to take self-driving cars whenever and wherever they wish?

- ** Tradable pollution permit**: How is the concept of tradable pollution permits being used to address various property rights problems, such as over-fishing?