

V517: Public Management Economics

Section 8519

MW 1-2:15

PV (SPEA) 278

Fall 1999

Meet Your Professor & Associate Instructors

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Welcome! The objective of this course is to present the economic concepts, relationships and methods of analysis that are relevant for public sector management decisions and policy analysis. Concepts and principles such as demand, production, cost, pricing and cost-benefit analysis will be covered.

Both David, Adam, and Gavin have offices in Suite 201 of SPEA, located behind the placement and internship office on the main floor.

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**Please be sure you read through the entire syllabus.
It contains important information that you will be responsible for.**

This syllabus includes the following important information:

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Required Textbooks:

The Required Textbooks should be available both at the IU Bookstore in the IMU as well as the TIS Bookstore on 3rd Street.

- Mansfield, Edwin. 1997. Applied Microeconomics. (2nd Edition) New York: WW Norton & Company.
- Mansfield, Edwin. 1997. Applied Microeconomics: Study Guide and Casebook. (2nd Edition) New York: WW Norton & Company.

Required Newspaper:

All students will be required to obtain and read *The Wall Street Journal* daily. On the first day of class David will have a special offer that includes both the print version and the web version at one low price. This offer is only available on the first day of class due to logistical concerns.

* **Note about David's Office Hours:** Although David *strongly* encourages you to stop by during office hours, please be aware that he is often out of town on business trips. If you wish to ensure that David will be available to speak with you, please make an appointment by calling the office.

Course Overview:

As an introductory course, one objective is for you to become comfortable with the somewhat unique terminology and modes of analysis used by economists. This is important for various reasons. Since these concepts and terms will be used in other courses in the SPEA curriculum, knowledge of them will be necessary in those settings. Furthermore, this knowledge is useful as you read or hear arguments put forth by economists in various situations. Whether or not you agree with their assessments of issues, your ability to judge the validity of the arguments will be strengthened if you understand the economists' language and their methods of analysis.

A second objective of the course is to develop your ability to apply the concepts. One application of the concepts is by solving problems (often numerical or mathematical) which have unique solutions. Homework sets, quizzes, and exams will contain these types of problems. Another application of the concepts is by being able to use them in considering more "real world" situations. This will be accomplished in a couple of ways. The homework will contain some of these non-numerical problems for which there will be non-unique answers that can and should be expressed verbally (with or without the aid of graphs/pictures). Similar questions will be included on the quizzes and exams. Even more "messy" problem analysis (which, unfortunately, approximate better the real world of analysis) will be undertaken through the use of several case studies where you will be expected to participate in the discussion and also to write up your analysis of the case. (See more on the case studies and papers below).

A Note about Disabilities:

If you have any disabilities that affect your ability to take exams in this class, or to complete any other aspect of this course, please notify us within the first two weeks of class so that we can accommodate you better.

Additionally, you should consult with the IU Office of Disabled Student Services. The phone number is 855-3508. This office can help you document your disabilities and will help you work with professors across campus.

Whatever you do, do not wait until the week of an exam to notify us of your disability. By doing so, we may not be able to make arrangements to accommodate you.

Case Studies: WWWW & H

Who, What, Where, When, Why, & How

The case studies used in this course describe real situations in which a public or private decision-maker must make a decision. As is most often the case in the real world, the decision-maker will have a variety of information at his or her disposal. However, in spite of the fact that the amount of information may be voluminous, much of it may be contradictory, some may be superfluous, and/or it may be incomplete. Your task, similar to that of the decision-maker, is to decide what information is pertinent. Each case will be self-contained and should not require any additional outside research to supplement the information provided. In general, while it is a good idea to be skeptical concerning the validity of information, you should assume that all the material provided is correct.

Each case study is different and there is no single approach that will always be effective. Nevertheless, there are some basic questions that are frequently useful to ask and attempt to answer. They include:

- Who are the principal actors in the case?
 - What are the long run goals of each?
 - What are the short run incentives of each?
 - How is each rewarded?
- What are the options available?
 - What is the decision to be made?
 - Are the apparent constraints really constraints or might some be loosened?
 - Are the long run alternatives different from those in the short run.?
 - What are others likely to do in response to each alternative?
- What are the advantages and disadvantages of each option?
 - Which are quantifiable?
 - What bounds can you put on those that are not quantifiable?
- Can the problem be broken into several simpler problems?

Unlike the problem sets, there is often no unique “right” answer nor is there necessarily a single approach that will always be effective at solving the problem. At the same time, some problem solving approaches may be less valid.

Case Memoranda:

Each student will be required to write a memo for each of the five cases used in this course. The memos must conform to the established guidelines in the Paper Guidelines section (page 5), and **must not exceed two pages** (any text in excess of two pages will be disregarded). Additional pages may be devoted to charts, graphs, tables, etc; however, the text should be able to stand alone without requiring the reader to refer to those exhibits.

It is important that you learn how to write effective memos in a decision-making environment. Decision-makers generally already understand the context of the problem and the general issues. He or she wants to know your recommendation(s), the reasons for those recommendations, and how they should be implemented. It is desirable to provide exactly that set of information in your memo and in that order (recommendations, reasons, implementation). Saving a recommendation for the end, the “murder mystery” approach can force your reader to reread the memo in order to reevaluate the argument. Similarly, when presenting your recommendations and arguments, lead with those you consider the most important.

For your memo, a synopsis of the case is not necessary since you can assume you are making recommendations to someone familiar with the details of the situation. However, if understanding a particular aspect of the situation is critical to understanding your recommendations, it may be appropriate to point these out. You will have to use your own judgement on which facts from the case warrant space in your memo.

As you prepare your memos, it is useful to keep several common mistakes in mind in order to avoid them:

1. One common error is to make recommendations (and other statements) that are far too general. Recommendations should be as specific as possible. The more specific the recommendation, the easier it is to see both the advantages and the disadvantages.
2. Try not to lose sight of what you are trying to accomplish. Losing sight can result in extraneous sentences and, sometimes, even paragraphs. All information in the memo should contribute to the points you are trying to make.
3. Often people make statements that are not supported by the facts in the case or other evidence. Unsupported assertions are often the vehicle by which personal biases slip into the analysis.
4. A fourth common error is to attempt to analyze the cases without manipulating the data. In most cases there are calculations based on information presented in the case and the concepts presented in the text that can be extremely enlightening in evaluating the alternative recommendations. Your analysis of a case is incomplete without the use of economic analysis.

Case Study Evaluation:

The following grading criteria will be used for the case memoranda:

0	No memorandum submitted
1-20	No recommendation/no economic analysis (only a case summary)
21-40	Sketchy/incomplete/incorrect economic analysis for the recommendation
41-60	Fair economic analysis
61-74	Good economic analysis
75-89	Very Good economic analysis
90-100	Excellent analysis

Other Course Considerations

Paper Guidelines:

In the 1990s, computer technology has advanced considerably thus making it easier than ever before to manipulate the font size, page margins, and text spacing. You will not wish to do any of that in this course. As such, all papers submitted for V517 must:

- Be typed in 12 point type in a standard font, such as Times New Roman.
- Be printed in black ink on white paper (color is acceptable for charts, graphs, and photos, but the body of your text must be in black).
- Be double-spaced.
- Be printed on one side of the sheet of paper.
- Be stapled or bound. However, you should not use any plastic covers.
- Include a cover page.
- Have page numbers.
- Have 1" top and bottom margins, and 1.25" left and right margins.
- Not use contractions. "Do not use them," said the professional.
- Have citations either via footnotes, endnotes, or in-text, as appropriate.
- Include a bibliography, as appropriate.
- Have your name on it. Otherwise we will not know to whom it belongs.

In the unlikely event there is concern that you have "played with the margins" or other manipulations, we reserve the right to request an electronic copy of your work.

The World-Wide-Web & You:

This course will make extensive use of the World Wide Web. The course will include both an online discussion section (a part of the "OnCourse" system) and various other web sites where you will be able to obtain journal articles and research case studies. If you do *not* have access to the IU computing clusters ("STC labs" or the SPEA Grad Lab on the fourth floor), please obtain access.

Initially, the most important web site that you will wish to view on a regular basis is the class homepage. You can reach the class homepage by visiting:

<http://www.spea.indiana.edu/audretsch/>

Collaboration:

In the real world you will often work with colleagues to solve problems. It is no different in this classroom. You are *encouraged* to work with your classmates on the homework, problem sets, and case studies. However each one of you must turn in your own work for grading.

In addition to face-to-face meetings with your classmates, you are *encouraged* to make use of the technological tools available to you: email and the Alta-Vista forums.

Assignments:

On the schedule of events you will notice there are two different kinds of assignments: case studies labeled “due” and other assignments listed as pages in your Study Guide and Casebook (SGAC). Both types of assignments are located in your SGAC, but only the case studies are to be completed for grading.

The other assignments correspond to the chapters completed in the textbook and are included for your consideration. Doing these assignments will greatly increase your understanding of the material. Answers for these assignments are included immediately after the questions.

Evaluation:

Your grades will be computed as follows:

<u>Course Component</u>	<u>Percentage</u>
Quiz 1	7.5
Quiz 2	7.5
Midterm	20.0
Final	25.0
Case Studies	20.0
Class Participation	15.0
Web Participation	5.0

Final grades in this class will use the normal breakdowns to establish letter grades. Keep in mind that Indiana University does use a +/- grading system.

Schedule of Events:

This calendar is subject to change. While it is unlikely material will be discussed earlier than the prospective date, it is entirely possible that it will be revised with some material being delayed and other material being discussed earlier than originally envisioned.

Additionally, homework assignments and case studies may change, both in terms of the prospective date and in terms of the material to be evaluated. While current plans call for the use of the case studies from the Study Guide, real world events, as reported in the *Wall Street Journal* may prompt the changing of the subject matters for the case studies.

It is unlikely that the quiz and examination dates for this class will change. Some of these events have been scheduled to coincide with David's business trips. The final exam date will only be changed *if and only if the university registrar changes the date.*

The First Half

<p>KEY: SGAC= Study Guide and Casebook Handout = Handout Not indicated = Mansfield textbook</p>
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Date/Week	Required Assignments		Voluntary Assignments
Week 1			
M: August 31	Market Analysis	Chapter 1	
W: September 1	Market Applications	Chapter 2	SGAC: pp 1-10 (Chapter 1)
Week 2			
M: 6 (Labor Day)	<i>Although IU has not cancelled classes, we will not be holding v517 today. Enjoy your day off! (No Office Hours Today)</i>		
W: 8	Due: Greatest Auction Ever (SGAC: CS 1)		
Week 3			
M: 13	Consumer Choice	Chapter 3	
W: 15	Consumer Demand	Chapter 4	SGAC: pp 19-28 (Ch. 3)
Week 4			
M: 20 (Yom Kippur)	Demand Analysis	Chapters 5-6	SGAC: pp 37-43 (Ch. 4)
W: 22	Quiz 1		SGAC: pp 49-57 (Ch. 5)
Week 5			
M: 27	Due: Standard Oil Co. (SGAC: CS 2)		
W: 29	Production	Chapter 7	SGAC: pp 91-101 (Ch. 7)
Week 6			
M: October 4	Cost Analysis	Chapter 8	
W: 6	Cost Applications	Chapter 9	SGAC: pp 108-120 (Ch. 8)
Week 7			
M: 11	Due: Dairy Industry (SGAC: CS 3)		
W: 13	Midterm Exam – Midterm Exam – Midterm Exam		
	<ul style="list-style-type: none"> • There will be no special exam times for the midterm. DO NOT MAKE ANY PLANS TO BE ANYWHERE ELSE. 		

The Second Half

Week 8			
M: October 18	Perfect Competition	Chapter 10	
W: 20	Perfect Comp. Cont.	Chapter 10	SGAC pp 154-169 (Ch. 10)
Week 9			
M: 25	Monopoly	Chapter 11	
W: 27	Oligopoly	Chapter 12	SGAC pp 181-190 (Ch. 11)
Week 10			
M: November 1	Strategy	Chapter 13	SGAC pp 198-209 (Ch. 12)
3	Policy	<i>Handout</i>	SGAC pp 216-221 (Ch. 13)
Week 11			
M: 8	Due: Cineplex Odeon Corp (SGAC: CS 4) Textbook Chapter 14		
W: 10	Management of Input	Chapter 15	
Week 12			
M: 15	Risk Management	Chapter 16	SGAC pp 248-255 (Ch. 15)
W: 17	Quiz 2		SGAC pp 261-268 (Ch. 16)
Week 13			
M: 22	Externalities	Chapter 18	
W: 24	Public Goods	Chapter 18	SGAC pp 300-311 (Ch. 19)
Week 14			
M: 29	Due: Airbus Industrie (SGAC: CS 5) Textbook Chapter 17		
W: December 1	Cost-Benefit Analysis		
Week 15			
M: 6	Due: California Water (SGAC: CS 6) Textbook Chapter 19		
W: 8	Innovation	<i>Handout</i>	
Week 16: FINAL EXAM			
W: 15	<ul style="list-style-type: none"> • Note Special Time: 2:45-4:45p <i>Time subject to change by the registrar.</i> • There will be no special exam times unless the final exam's date/time is later than the time indicated above. DO NOT MAKE PLANE RESERVATIONS AND EXPECT US TO ACCOMMODATE YOUR EARLY DEPARTURE. 		

Final Grades will be given to the registrar and posted to the university's computer system. You can access your final grades at

<http://insite.indiana.edu/>

If you have any questions or concerns about your final grade, or any grade, please do not hesitate to stop by the office to speak with David.