THE HELLER SCHOOL FOR SOCIAL POLICY AND MANAGEMENT  
BRANDEIS UNIVERSITY  
HS372B. ECONOMIC THEORY AND SOCIAL POLICY  
Spring 2018

Professor Christine Bishop  
Meeting Time: Wednesdays, 2:00-4:50

Office: Schneider 214  
Room [G-1]

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E-mail: bishop@brandeis.edu

Office hours: Thursday 2:00-3:30 and by appointment

Contact: Ms. Debbie DeWolfe 6-3123 ddewolfe@brandeis.edu

I look forward to meeting each of you to learn more about your interests.

Teaching Assistant: Sylvia Stewart smadstewart@gmail.com

TA Session: TBD: It is important that we find a time when most students can attend. Homework will be collected and discussed in the TA session.

Course Description and Objectives: This course introduces concepts of microeconomic analysis that can be applied in the analysis of social policies. As a discipline, economics provides a framework for modeling choices by market actors. We assume each actor is trying to do the best s/he can with the situation each has – formally, each is optimizing his/her objectives subject to constraints. By the end of this course, you will know basic economic models for consumer demand, producer decisions, market equilibrium, insurance, workers’ choices about labor force participation and job choice, and demand and supply of public goods. Over your Heller career and beyond, you will be able to apply these basic concepts of demand, supply, and markets to yield insights into the demand and supply for health services, housing, food, child care, education and other goods and services that are relevant for social policy, with special attention to decisions about work, insurance and risk, saving and human capital that can build assets and support family wellbeing.

Course Structure: Lecture and discussion each week will develop the basic concepts and theory for the week and then briefly introduce the material for the next week, to help you focus your reading. A short segment at the beginning of each class will be devoted to current economic events. Starting on January 31, the last 50 minutes of class will be devoted to a student group’s presentation on a policy topic. Problem sets will be discussed in the TA session.

Course Requirements: Courses at Brandeis are expected to average approximately three hours of out-of-class work for each hour of class time. The following activities are required for the course, with weights for final grade in parentheses.

- Develop and lead a Policy Discussion with a team, including preparation of a topic brief/description guide –see further explanation below (15%).

- Thoughts and Questions (TQs): By Tuesday at 2 pm each week you are expected to respond to the week’s Thoughts and Questions Google survey with reflections on the week’s
readings. Your responses will not be graded, but active participation (TQs for at least 9 of our 12 sessions) is necessary to pass this course.

- **Class Participation:** Attendance is required, most of all because we will miss your voice if you are not present. The material can be challenging, and I need to know that each student has the benefit of all the available learning tools, including lecture and class discussion as well as reading, problem sets and TA sessions (10%).

- **Homework assignments.** New technical concepts will come up at nearly every session. In order for students to keep up and master the concepts, I will assign technical exercises most weeks during the semester. This will often involve graphs and pictures; it is fine to sketch these, there is usually not a need for beauty and precision. Completed problem sets must be submitted to our TA, either on LATTE (scan your paper if necessary) or in hard copy. Answers will be posted on LATTE. You will receive 5 points for every homework assignment that shows a good-faith effort to understand the material and turned in on time (15%).

- There will be an in-class **midterm exam** designed to take about one hour to complete (25%) and an **in-class final exam** (35%) in the course exam period, each graded on a scale of 100 points.

**Course Reading to Read Prior to Class Each Week:**

- The following **textbook** has been ordered through the bookstore: Robert H. Frank, Microeconomics and Behavior. Ninth Edition. New York: McGraw-Hill, 2015. ISBN: 978-0-07-802169-5. (Recent earlier editions may be acceptable.) Chapters are short but economics reading is dense – you will probably need to read the material several times and expend some effort working out what each graph means.

- Other readings may be listed and available on LATTE to address particular topics

- Policy topic briefs prepared for the student-led policy discussion topics, posted on LATTE, are also required reading for all students.

- Supplementary materials on each policy discussion topic will also be available, selected by me or by the student presenters. Academic journal articles can give you a picture of how economists analyze problems, use data to test hypotheses, and draw inferences for policy. Skim these optional articles, which may go deep into mathematical theory or fancy econometrics, for background understanding of the problem addressed, approach, and conclusions.

- This course will take you through a traditional approach to economic decision making and outcomes. An exciting new resource for learning and teaching economics has been made available on line by a group of economists calling themselves the Core Team. They present evidence and analytic tools to address challenging questions of our economy. Some parts of this free interactive text will be assigned as required or optional reading. Sign up and log into this free resource at this link: http://www.core-econ.org/the-economy/index.html

Make an effort to locate and follow a source of current economic news. What’s the current unemployment rate, growth rate, interest rate, and which directions are they heading? What
do these macroeconomic indicators portend for the outcomes we care about, from poverty to state Medicaid spending to child wellbeing?

**Student-led policy discussion.**

To demonstrate how economic analysis is applied to policy questions, students will team up into groups of two (or at most three) to investigate a particular public policy topic, based initially on one or more readings that I will suggest. Each team will prepare a two-page overview or brief to be posted in time for the class to read prior to your presentation and a 50-minute presentation/class discussion on the topic. Below are the steps for each group:

- **Choose your topic:** A topic list is posted on LATTE with the date when each team is scheduled to present. If there is a topic that you would especially like to present on instead, we can consider substitution, but the topic must demonstrate the use of economics concepts for the appropriate week, and we must determine the final list by January 23 at the latest. Teams will be announced by January 25 so that the first team can be ready to present by our class meeting February 8.

- **Each team should get started** by reading the materials I provide, identifying relevant economics concepts and approach, looking for a few other sources, and identifying relevant issues.

- **Meet with me** at least two weeks before your scheduled date so we can discuss your approach. Schedule a time through Ms. Debbie DeWolfe (ddewolfe@brandeis.edu). Please do not do major preparation before meeting with me.

- **Prepare your session.** Your class session should focus on how economics has been used to illuminate behavior and/or develop policy. You may want to present aspects of an economic study to the class for discussion, but be sure to focus on how the economic analysis relates to policy choices. You may want to engage the class in a case analysis or a group activity.

- **Submit your topic brief to me** by Friday noon of the week before you are to present, so I can provide feedback and it can be revised and posted for the class to read before class time the following Wednesday.

- Optional: assign additional readings to the class. You may expect the class to skim readings you suggest for background on the problem addressed, approach, and conclusions.

- **Lead the class!**

**Provisions for Feedback:** You will get feedback on your DRAFT team policy discussion document. Exams will be graded and returned.

**Academic Integrity:**

Students may work together on problem sets (after they’ve given the problems a solid try on their own) but may not work together on the midterm or the final exams. It’s possible you might find answers to problem sets or exam questions similar to the ones I assign on the internet. Do not use them. Do your own work.

Academic integrity is central to the mission of educational excellence at Brandeis University. Each student is expected to turn in work completed independently, except when assignments specifically authorize collaborative effort. It is not acceptable to use the words or ideas of another person -- be it a world-class philosopher or your lab partner – without proper
acknowledgement of that source. This means that you must use footnotes and quotation marks to indicate the sources of any phrases, sentences, paragraphs or ideas found in published volumes, on the internet, or created by another student. Violations of university policies on academic integrity, described in Section 3 of Rights and Responsibilities, may result in failure in the course or on the assignment, and could end in suspension from the University. If you are in doubt about the instructions for any assignment in this course, you must ask for clarification.

Notice: If you have a documented disability on record at Brandeis University and require accommodations, please bring it to the instructor’s attention prior to the second meeting of the class. If you have any questions about this process, contact Ravi Lakshmikanthan, disabilities coordinator for The Heller School at x 62753, or at kanthan@brandeis.edu

Course Schedule and Readings
Weekly readings from Frank Microeconomics and Behavior are required reading. Class lecture and discussion will expand on this material. Come to class prepared to discuss.

- Potential weekly policy topics for student-led discussion are indicated by bullets.

1. January 10
Introducing Economic Thinking, Supply and Demand
Economics provides a framework for understanding behavior of market actors. The fundamental building block is a choice by a decision maker weighing the costs and rewards of his/her options. At a market level, these myriad decisions add up to demand (a relationship between the price that is charged and the quantity that buyers all together will choose to purchase) and supply (a relationship between the price that is offered and the quantity producers will supply).
Frank, Chapters 1 & 2. Read Before First Class.

2. January 17
Continue with Supply and Demand
Rational Consumer Choice
Having seen the demand relationship as the combined result of many consumers’ decisions, we go back to the basic building block: consumer decisions about how to use their resources (money and time) to obtain what they value most. We’ll develop a way to picture a consumer’s opportunities: all the choices s/he might make; and a way to picture how s/he values each of these options.
Frank, Chapter 3
- News: Measuring macroeconomic variables (GDP and its components, inflation).

3. January 24
Continue with graphical theory of consumer choice; be sure you make connections between the concepts and the graphical representations of income, (relative) prices, and consumer tastes. Use the graphical representation to understand the change in the affordable set when the consumer receives food stamps.
• News: Tracking the labor force and unemployment

4. January 31

Individual and Market Demand

Next we consider what happens to our consumer’s best choice (and its graphical representation) when a price changes. This allows us to draw another graph, showing the quantity of a good s/he will choose at different prices, and to aggregate the desired quantities at each price for many consumers, resulting in – ta da – market demand, a graph we’ve seen before.

Frank, Chapter 4
• Student Presentation

5. February 7

Applications of Consumer Demand Theory

The theory of consumer demand can help us analyze the impact of public policies that change the consumer’s budget constraint or the price s/he pays for special goods like housing, education, or health services. How will the new optimum choice differ from the original choice? We extend our consumer choice model to show an affordable set that has a time dimension, allowing the consumer to reduce consumption now so s/he can consume more later, or to borrow against future income so s/he can consume more now. This intertemporal choice is one key to economic theories of asset building.

Frank, Chapter 5
• Student Presentation

6. February 14

Imperfect Information and Choice under Uncertainty

Why do people buy insurance? How can an insurance company afford to sell insurance that might require it to pay a policy holder an amount much larger than the premium it has collected from him/her? And what can go wrong with insurance markets to make them fall apart?

Frank, Chapter 6
• Student Presentation

Midterm Exam.

No Class February 21

7. February 28

Production

A production function is a recipe showing how outputs can be produced from inputs; the producer-as-decision-maker chooses the amount of inputs to use, resulting in a certain amount of output. We will look first at a graphical representation of how output changes as the producer adds more of a single input, corresponding to the situation where machinery and other capital is fixed for the immediate future and only the amount of labor can be varied. Then we’ll set up a
graph showing how the producer might change capital input too, and indicating what can be produced with combinations of the two inputs. These concepts can be used to analyze substitution possibilities for producing human services.

Frank, Chapter 8
- Student Presentation

8. March 7

Costs
Every possible input combination that a producer might choose has a total cost as well as an associated total output. Our next graphical representation shows total cost as a function of output quantity; from this we can compute, for various rates of output, the average cost per unit and marginal cost, the additional cost of producing one more unit. These concepts are useful for setting administered prices for health and human services when markets don’t work. Concepts of efficiency are useful for thinking about “bending the cost curve” for health care.

Frank, Chapter 9
- Student Presentation

9. March 14

Perfect Competition

A perfectly competitive market produces a number of desirable outcomes, and some public policy discourse invokes this ideal of dispersed, autonomous decision-makers reaching a global optimum that maximizes total value. You need to know how this logic works before you can critique it. In a competitive equilibrium, the price a consumer gives up to buy every good is just equal to the resource cost of producing that good; and there is no wasteful use of input resources and no production where the cost exceeds consumer value. The search for economic profits provides the energy that leads to this outcome.

Frank, Chapter 10
- Student Presentation

10. March 21

Monopoly

A monopolist, with control over the entire market for his/her product, sets output and price at different levels than would be reached by a competitive market. Important issues for social policy students are the ability of firms with market power to price-discriminate and government regulation of natural monopoly.

Frank, Chapter 11

OPTIONAL: Brief Introduction to Game Theory and Strategic Behavior

In a strategic environment, actors are aware that their actions may elicit a counter-action from other actors.

Frank, Chapter 12
Oligopoly and Monopolistic Competition

Human services providers often face downward sloping demand curves, because their products are differentiated—if they raise their prices, they will lose some but not all their business, because at least some consumers won’t switch doctors/child care providers/addiction treatment centers. Location and consumer information (advertising product characteristics) also affect the slope of the demand curve faced by a provider.

Frank, Chapter 13

- Student Presentation

11. March 28

Labor Supply and Demand

The economics of labor supply and demand are critical for understanding worker incomes. Our theory of consumer choice can be used to model (using graphic representation) the choice between a desirable “good,” leisure, and other goods, given a time budget, a wage rate, and unearned income. Our understanding of diminishing marginal product of inputs can be used to model the quantity of labor that a producer will hire at different wage rates. We will extend the theory to consider how monopsony might explain the continuing shortages of certain types of health workers; how benefits provided to people below an income threshold might discourage work; the theory and empirical findings about minimum wages; and how the EITC provides incentives for work. If time permits, we will introduce the payoff to education and training and the theory of human capital investment.

Frank, Chapter 14

- Student Presentation

No Class April 4

12. April 11

Continue with labor supply, demand, and applications

- Student Presentation

13. April 18

Introduction to Collective Goods; Wrap Up

Frank, Chapter 18

For some goods, whatever the producers supply is available to both you and me in the same amount and what I consume does not diminish what you consume. How can a market economy determine how much of such goods (public health, clean air, television broadcasts, roads [so long as they are uncongested], light houses) to supply? Government purchase is one, but not the only, answer.

- Student Presentation

Final Exam in Scheduled Exam Period
Potential Topics for Student Presentations (as of January)

Students should gather a team of two and choose a topic; where several dates are listed, any of the topics may be presented on any of the dates. Sign-up sheet will be available in class.

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<tr>
<th>Date</th>
<th>Student</th>
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<th>Which Topic?</th>
<th>Potential Policy Topics</th>
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<td><strong>Consumer Decision Making</strong></td>
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<td>• Tax on Cigarettes and Teen Smoking</td>
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<td>• Impact of alcohol taxes</td>
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<td>2/7/2018</td>
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<td><strong>Consumer Decision Making: Risks, Life Cycle</strong></td>
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<td>• Subsidizing Saving: for retirement; for asset-building</td>
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<td>• High deductible health insurance</td>
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<td>• Health insurance death spiral</td>
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<td>• Long-term care insurance</td>
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<td><strong>Production</strong></td>
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<td>• Using Inputs to Produce Human Services or Education(substitution of personnel by occupation; child care: impact of child/staff ratio; education: impact of class size; health: patient engagement, care coordination, or family care as inputs into production)</td>
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<td>• Health services as inputs into health</td>
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<td>• Minimum Wage affects Employment of Labor</td>
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<td>• Changing Demand for Skills Affects Income Inequality</td>
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<td><strong>Costs of Production</strong></td>
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<td>• Economies of scale for a Health or Human Service</td>
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<td>• Bending the health cost curve</td>
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<td>• Hospital Competition</td>
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<td>• Nonprofit decision making: efficiency implications</td>
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<td>• Work Decisions for People with Disabilities</td>
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<td>3/28/2018</td>
<td>• Ban the Box</td>
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<td>• Wage differentials by (gender, identity, race, age)</td>
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<td>• Job training programs: what investments pay off?</td>
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<td>• Economics of student loans</td>
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<td>• Interregional migration as a human capital investment</td>
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