Objective
This course will teach you how to use advanced microeconomic theory to address practical problems in the policy world. The first part of the course will use traditional neoclassical economic tools to analyze problems in welfare and tax policy, and intergovernmental transfers. After briefly reviewing the main results in general equilibrium and welfare economics, we will critically assess the market mechanism and identify the circumstances under which it leads to inefficient outcomes. Part two of the course will go beyond the neoclassical model and explore more recent developments in microeconomic theory, including information economics, choice under uncertainty, and game theory. These techniques and concepts will be applied to problems such as health insurance, investment in schooling, wage contracts, and collective bargaining.

Prerequisites
The course presumes a working knowledge of intermediate microeconomics and calculus. Fluency in these two areas (plus experience) is usually sufficient to tackle most public policy issues in an applied setting; I thus strongly encourage you to purchase an intermediate microeconomics textbook that you can refer to periodically as you progress through your career. For those wishing to pursue an academic career in public policy with an economics focus, an advanced graduate course in microeconomic theory (such as ECON200 offered at UNC) is essential.

Course Readings
There are two required textbooks which are listed below. In addition to the intermediate microeconomics textbook that is already (or soon will be) on your shelf, the book by David Kreps is an excellent user-friendly reference for most of the topics covered in this course (especially the second part of the syllabus). Aside from the required textbooks, journal articles have been listed under certain sections of the syllabus, and others will be assigned as the class progresses. Finally, the Journal of Economic Perspectives often publishes a ‘Policy Watch’ article—a short paper that brings economic analysis to bear on current policy issues in the US economy. Recent topics have included Health Insurance, the Alternative Minimum Tax, the Inheritance Tax, and Disability Insurance. These articles should become part of your regular dose of professional reading.

Evaluation Scheme
There will be two tests scheduled during class time and a final exam. The first test (20%) will be given after completion of section B of Part I of the syllabus. The second test (20%) will be given after completion of section A of Part II of the syllabus. The final exam (40%) will be held during exam week and will be comprehensive. In addition, each student will make a short (20-30 minute) in-class presentation (20%) of a journal article or policy issue in his or her field of interest, to be followed by a class discussion. Additional details on the presentation will be provided in class. Problem sets will be distributed during the semester and will not be graded, but specific problems will be assigned to individuals to present in class.

Outline of Topics

Part I: The Standard Model

A. Choice under certainty
   F: pp.37-45; pp.69-75. K: Ch. 2; Appendix A.
   a. Applications
      Ch. 4; Ch. 5; R. Moffitt (1992) “Incentive effects of the U.S. welfare system,” Journal of Economic Literature 30:1-61.
   b. Extensions – Time as a Cost

B. Market Equilibrium
   a. General Equilibrium and Welfare
      F: Ch. 12; pp.45-68; 113-118; K: Ch. 5; Section 8.3.
   b. Competitive Markets, Efficiency and Applications
      F: Chs. 13-14;

C. Market Failure and Institutional Choice
   a. Sources of Market Failure
      F: Ch. 15
   b. Applications
      F: Chs. 16-19

Part II: Information Economics, Uncertainty and Game Theory

A. Information Economics
   a. Choice under Uncertainty
      F: pp.220-242; K: Ch. 3
   b. Asymmetric Information and the Insurance Problem
c. **Agency**  

**B. Introduction to Game Theory**

a. **Games of Complete Information**  
G: Chs. 1-2; K: Chs. 11-12.

b. **Games of Incomplete Information**  
G: Ch. 3; K: Chs. 13-14.