PPPA 6015.10: Economics Applied to Public Policy: Benefit Cost Analysis Fall 2018

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Office Hours: Tues, 4-5 PM; Wed, 4-5 PM; Thur. 4:00-8:00 PM; by appt.

Required

Supplemental
HM Treasury: Appraisal and Evaluation in Central Government, 2003 (Blackboard)

Recommended
Cass Sunstein, Risk and Reason, Cambridge Press, 2002 (Blackboard)

Course Description

PPPA 6015 is the second course in a two-semester sequence that is intended to develop the student’s ability to use economic analysis to analyze and evaluate outcomes of public policy. It is the empirical sequel to PPPA 6014, and focuses on turning the economic theory of policy analysis into practice. The main analytical framework linking the theory of micro-economic policy analysis to the empirical evaluation of policy is applied welfare economics, and more specifically, benefit-cost analysis.

Learning Objectives

Through lectures, discussions, readings, assignments, exams, and a class project, students will develop knowledge and skills that will enable them to:

1. understand the conceptual foundations, strengths, and limitations of applied welfare economics and cost-benefit analysis (CBA) as tools of policy analysis;
2. undertake a welfare economic/benefit-cost analysis of a public policy;
3. apply economic theory to public policy problems;
4. evaluate and compare policy alternatives using cost-benefit analysis and economics generally.

Assessment and Grading

The grade in PPPA 6015 is based on the following work products:

1. Take-home examination (30%);
2. Benefit-Cost Analysis project (50%). (See the CBA guidelines handout for details): (i) project proposal (5%); (ii) List of Potential Costs & Benefits (5%); (iii) Literature & Data Review (5%); Class Presentation (5%); Final Paper (30%)
3. Graded Assignments (15%)
(4) Class participation (5%)
(5) Practice problems (0%)
The graded assignments and practice problems are designed to reinforce the concepts from class and prepare you for the exams. The intent of the practice problems is to help you absorb some of the specific concepts we will be covering, and will provide preparation and feedback for the course examination. The problems are listed in the course schedule under the class in which the concepts are covered. I recommend that you do them AFTER the class under which they are listed. Answers to the problems will be posted the week after the practice problems are posted.

Class Discussion: Class participation will count for 5% of the grade. You can participate either in class or on a discussion board set up for this purpose.

COURSE OUTLINE

I. Aug. 28: Overview of Cost-Benefit Analysis and Applied Welfare Economics: (Lecture 1 and 2)
What is Cost-Benefit Analysis; what questions is it intended to answer; what are its main elements?
Boardman, et. al. (BGWV), Chapter 1.

What is Applied Welfare Economics; what role can and should it play in the policy process?
BGWV, Chapter 2.

Sample Benefit Cost Studies to be discussed on blackboard and in class for the week of Sept. 11.

Practice Problem Sets #0 #1

CBA Project Proposal due Friday, Sept. 21

II. Sept. 4: Conceptual Issues and Foundations of Applied Welfare Economics. (Lecture 2)
The concept of economic efficiency in applied welfare economics and benefit costs analysis: Pareto
efficiency, actual vs. potential Pareto improvements, compensation criteria. How public policies affect economic efficiency.


Empirical building blocks: Willingness-to-pay and Social opportunity cost.

BGVW, Chapters 2 and 3 (Ch. 2, 4th edition)

Critical Perspectives and Rejoiners:

President of the United States, Memorandum on Regulatory Review, Feb. 2009

Arguments Con:


Center for Progressive Reform, “A Return to Common Sense…”

http://www.progressivereform.org/articles/PRIA_909.pdf


Arguments Pro:


Mannix, in press. “Benefit-Cost Analysis as a Check on Administrative Discretion.” Supreme Court Economic Review.


PEW, 2013. States’ Use of Cost-Benefit Analysis

Practice Problem Set #2

Graded Assignment #1 distributed (due Sept. 18).

III. Sept. 11, 18, 25: Willingness-to-Pay & Social Opportunity Cost (Lectures 3-5)

Compensating and equivalent variations; Consumer surplus, producer surplus; social surplus.

BGVW, 3 (Ch. 4 in 4th edition), HM Treasury, Green Book, Annex 2


Benefits and social costs in primary and secondary markets; transfers vs. real benefits and costs.

BGVW, Chs. 5, 6, and 7) (Chs. 4 and 5 in 4th edition).


Practice Problem Sets #3 and #4
*CBA Project Cost-Benefit List (due) Oct. 12
Graded Assignment #2 (due Oct. 16)

**IV. Oct. 2: Discounting and the Issue of Time in Benefit-Cost Analysis (Lectures 6 - 8).**

The Mechanics of Discounting
BGVV, Ch. 9

Practice Problem Set # 5

The Social Discount rate
BGVV, Ch. 10; HM Treasury, *Green Book*, Annex 6

Assignment #3 (due Oct.23)
*CBA Project Literature Review (due )Nov. 9

**V. Oct. 16 Oct. 23, Mar. 3: Estimating Benefits and Costs in Practice: (Lectures 8 and 9)**

BGVV, Predicting and Monetizing Impacts, Chapters 5 and 8 (available on blackboard).
Deck and Chestnut, \textit{Benefits Transfer: How Good is Good Enough?}\hfill
Conney and Lynch-Cerrulo, 2014. “Social Rate of Return (SROI): A Case Study of JVS.

Obtaining Estimates from “Analogous/Related Markets”
BGVW, Ch. 15 (Ch. 14 in 4th edition)
Cameron, 2009. One Hundred Reasons Why we Should Replace the “Value of a Statistical Life” (VSL) with “Willingness to Pay for a Micro-Risk Reduction.” (quite amusing).

Obtaining estimates from Demonstration Projects and Controlled Experiments
BGVW, Ch. 14 (blackboard)


Practice Problem Set #6

Existence value and contingent valuation
BGVW, Ch. 13 and Ch. 16 (Ch. 9 and Ch. 14 in 4th edition)

Practice Problem Set #7

Obtaining Estimates from Secondary Sources
BGWV, Ch. 16
Deck and Chestnut, *Benefits Transfer: How Good is Good Enough?*

Practice Problem Set #8

**VI. Oct. 30, Nov. 6.: Dealing With Uncertainty** (Lectures 10 and 11)

Some general principles for decision-making under uncertainty
BGWV, Ch. 11 (blackboard).
Stewart and Mueller, 2014. “Are Airports Too Safe?” *Journal of Air Transport Management*

Practice Problem Set #9

**VII. Nov. 13: Dealing with Distributional Issues** (Lecture 12)

Distributional Weighting of Benefits and Costs
BGWV, Ch. 19 (both editions).
Sunstein, 2014. The Poor Need Ryan’s Regulatory Reform
Miller, 2014. Paul Ryan Anti-Poverty Plan Targets Regressive Regulations
Kaldor-Hicks Compensation in Practice (time permitting)
Cordes, Goldfarb, and Barth, ACompensating When Government Harms, @ in Zeckhauser and Leebaert, eds., What Role for Government, Duke University, 1983.

VIII. Nov. 20: Cost Effectiveness Analysis (Lecture 13)
BGVW, Ch. 18 (both editions).

Education Evaluation and Policy Analysis

Take home examination distributed on Blackboard Nov.20, due back by Dec. 4

IX. Student Presentations: Nov. 27, Dec. 4

Final Paper due Dec. 20

University Policies
Religious Holidays: http://provost.gwu.edu/policies-procedures
Student Disability Services: http://www.gwired.gwu.edu/dss
Academic Integrity: http://studentconduct.gwu.edu/academic-integrity