

Markets, public policy, & public administration

Session 15

PMAP 8141: Microeconomics for Public Policy
Andrew Young School of Policy Studies

Plan for today

What the h*ck did we just learn?!

Why does all this matter?

What do we do now?

**What the h*ck
did we just learn?!**

Course objectives

The public sector is complex. Public administrators, managers, and policy makers need to be fluent in the language of economics and need to be able to engage in and understand quantitative analysis of social policies.

In this class, you'll learn how to *understand*, *speak*, and *do* economics.

By the end of this course, you will (1) be literate in fundamental economic principles, (2) understand the limits of economic theory and free markets, (3) justify government and nonprofit intervention in the economy, and (4) make informed policy recommendations by analyzing and evaluating public sector policies. Specifically, you'll be able to:

- **Understand** the principles of microeconomics, public economics, and behavioral economics
- **Explain** social phenomena using economic vocabulary and reasoning
- **Predict** how individuals respond to incentives
- **Justify** government intervention in the free market and **identify** when public policies have been unethical or failures
- **Propose and argue** for public and nonprofit sector policies

Capitalism, markets, and public policy

Growth Social dilemmas
Measurement Fairness Inequality



Market failures and institutions

Externalities Public goods Rent seeking
Monopolies Government intervention



Economic models

Scarcity Firms and markets
Preferences Optimization Information

Main takeaways

Economic principles

You now think differently.

Institutions

Social phenomena are messy and complicated.

Analysis

Economic analysis is great. And limited.

Most important principles

Opportunity costs

Incentives

Efficiency, fairness, equitability, justice

Markets are great

Markets can fail

We can fix those failures

We can make those failures worse

Institutions rule the world

We are influenced (greatly)
by external institutions

Institutions are how we fix market failures

Institutions are crucial for good policy

Institutions are hard to change

Analytical tools

Indifference curves

Supply and demand

Elasticity

Game theory

Inflation

Growth rates

DWL

Tax burdens

**Why does
this all matter?**

Duflo's recipe for fixing poverty with policy

Easy!

Understand health, education, savings, labor markets, institutions, incentives, and politics



Duflo vs. institutional nihilism

Yes, institutions are powerful and path dependency is a thing

But there's room for substantial changes and improvements

Economic policies rooted in evidence **can** change lives and politics



BY COMMON CONSENT

ABOUT AUTHORS FEATURES ARCHIPELAGO INTELLIGENCER BCC PRESS

Dear American Taxpayers, Thank You for Saving My Life

 JULY 4, 2018 BY [BCCPRESSEEDITOR](#)

Keira Shae wrote this letter in November of 2011 as part of a class assignment for a course at Utah Valley University. It was published in the Daily Herald a few months later and reprinted in several other newspapers across the country. It is reprinted as an appendix to Keira's new book [How the Light Gets In](#), which will be published by BCC Press on July 24. Among the comments the letter received when it was first published were "I'm not accepting your thanks because I was taxed, I did not not willingly give. I wouldn't have really supported you." And "a dead child is better than a welfare child." We believe that our BCC Readers will do much better in the comments section, and we offer it to you as our gift to you on this Fourth of July.



Dear American Taxpayers,

My name is Keira, and I am twenty-three years old. I am the daughter of an uneducated, meth-addicted prostitute who was the single mother of six children. **Since 1987, you have supported me as you paid your taxes. You are the sole reason I am alive today. I am writing to thank you for it. I hope this message gets to you.**

From the moment my mother found out she was pregnant

FEATURED POST



Presenting "I Gave Her a Name" and "A New Constellation"

RECENT COMMENTS

- Lona Gynt on [Let Love be Love](#)
- ReTx on [Palm Sunday: Being on the Right Side When it Is Easy](#)
- Michael Austin on [Palm Sunday: Being on the Right Side When it Is Easy](#)
- Mark on [Palm Sunday: Being on the Right Side When it Is Easy](#)
- john f. on [Palm Sunday: Being on the Right Side When it Is Easy](#)
- Megan on [The Prophet Project: How Can I Understand? by Elder Soares](#)

For this to work, you *have* to
understand economic principles

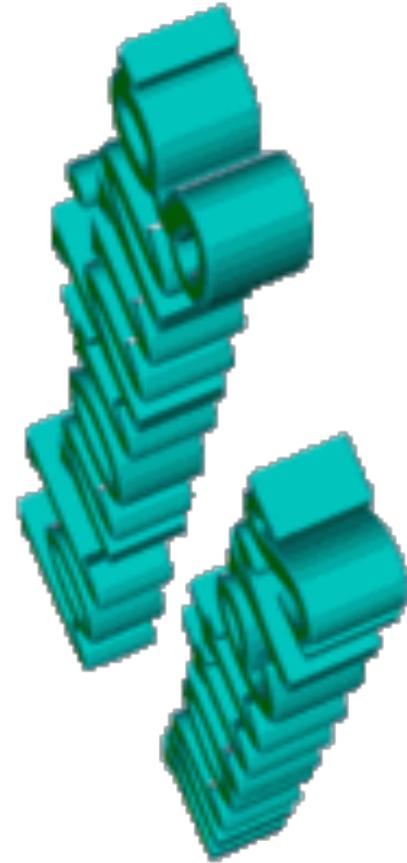
What do we do now?

**Economic models are overly
simplified and wrong**

**Estimates and numbers
are always inaccurate**

**We can't measure
anything perfectly**

Politics messes everything up



Don't succumb to public administration nihilism

You don't need perfect information

Muddling through is okay
(and the only way)

The Science of “Muddling Through”

By CHARLES E. LINDBLOM

*Associate Professor of Economics
Yale University*

SUPPOSE an administrator is given responsibility for formulating policy with respect to inflation. He might start by trying to list all related values in order of importance, e.g., full employment, reasonable business profit, protection of small savings,

➤ Short courses, books, and articles exhort administrators to make decisions more methodically, but there has been little analysis of the decision-making process now used by public administrators. The usual process is investigated here—and generally defended against proposals for more “scientific” methods.

Decisions of individual administrators, of course, must be integrated with decisions of others to form the mosaic of public policy. This integration of individual decisions has become the major con-

Rational-comprehensive approach

Systematically analyze every decision with perfect information, unlimited time, and unlimited intellectual capacity

In 1950s/60s, PA schools taught students to not do this because it's impossible

But they still did

GUESS WHAT WE'RE TEACHING YOU

Successive limited comparisons approach

(“muddling through”)

Seek out empirical evidence
+
live with real world constraints

Rational approach

Good policy = most appropriate means to a specific end

No variables are omitted—if so, it's an accident and bad

Proposed changes are sudden, systemic, and perfectly evidence-based

Muddling through

Good policy = a bunch of people agree it's good enough

Variables are omitted on purpose and analysis is simplified

Proposed changes are incremental and marginal

“A wise policymaker consequently expects that his policies will achieve **only part** of what he hopes and at the same time **will produce unanticipated consequences** he would have preferred to avoid. If he proceeds through a **succession of incremental changes**, he avoids serious lasting mistakes in several ways.”

Charles Lindblom, “The Science of ‘Muddling Through’”

Change should be incremental

Institutions are sticky and hard to change

Policies generally only get passed and adopted if they're incremental

Choose something

Do it

If it works, improve it

If it doesn't work, fix it

**If the improvement (or fix) is good
(or bad), adjust accordingly**

↑ Keep doing all of that ↑