

PPA 897 Study guide:

Policy analysis is client-oriented advice relevant to public decisions informed by social values.

Contrast academic research, policy research, planning, public administration, journalism, policy analysis.

Describe the four functions of a policy analyst: desk officer, policy development, policy research, oversight, firefighting.

Identify the main parts of the job of a policy analyst:

- 1) Gather, organize and communicate information in situations where deadlines are strict and access is limited.
- 2) An ability to put the problem in question in context:
- 3) Technical skills to predict and evaluate the consequences of alternative predictions.
- 4) Understanding of political and organizational behavioral context of the client. Presenting information that they can use in their particular setting.
- 5) Ethical framework in which to conduct analysis and present findings.

What is the difference between a necessary and a sufficient condition?

Define Efficiency – getting the greatest aggregate good from the available resources
Contrast to equity – fairness in the way the good generated is distributed

Recall the three, at times conflicting goals, confronting the policy analyst

- 1) Analytical integrity
- 2) Responsibility to client
- 3) Adherence to one's personal conception of the good society

Contrast the roles:

Objective Technician

Client's advocate

Issue Advocate

Describe the options when these conflict.

Voice – speak up, work to make change from within.

Exit – leave the situation and seek out another

Disloyalty – betray the trust of the client in the name of a higher good.

Describe the four assumptions of a perfectly competitive market

- 1) Price taking behavior by both consumers and producers,
- 2) Perfect information
- 3) Homogenous good in the market
- 4) No transaction / coordination costs

Identify cases where we have analyzed when each one of these has been violated.

Demand curve:

What is it?

What is on the x-axis?

What is on the y-axis?

What explains the slope?

What leads to a shift in the demand curve?

Be able to draw shifts in the demand curve if given a story about something in the 'all else equal' changing.

If given $Q=100-20*p$, be able to fill in values for $p=1$ to 5 , and compute the associated elasticity of moving from one p,q pair to another.

Supply curve:

What is it?

What is on the x-axis?

What is on the y-axis?

What explains the slope?

If given $Q=20+20*p$, be able to fill in values for $p=1$ to 5 , and compute the associated elasticity of moving from one p,q pair to another.

What is a market equilibrium?

What happens if a market is out of equilibrium to move it towards equilibrium?

How can policy changes influence the equilibrium?

How can policy (price floor, price ceiling) prevent arriving at a competitive market equilibrium?

Make sure you can get $100-20*p$ and $20+20*p$ to tell you $(\$2, 60)$.

What is a supply elasticity:

$$\eta = \frac{\% \Delta Q_s}{\% \Delta p}$$

eta = % change in quantity supplied divided by the percent change in price.

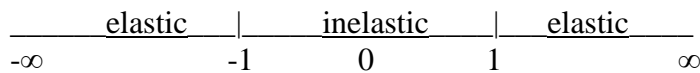
$$\frac{\frac{\Delta Q_s}{Q_s}}{\frac{\Delta p}{p}}, \quad \text{or} \quad \frac{\Delta Q}{\Delta p} \cdot \frac{p}{Q}$$

Alternatively, define it as

or

Below one we call inelastic, 1 is unit elastic, Above one is elastic.
Infinity extremes are perfectly elastic, zero is perfectly inelastic

Note:



Don't get inelastic and perfectly inelastic mixed up; inelastic is anywhere [-1 to 1], while perfectly inelastic is 0.

What determines elasticity of a supply curve? {how easy is it to scale up production, and does doing so increase the marginal cost of the last unit produced?}

Demand elasticity: Use the Greek letter epsilon, ϵ .
Use and be able to interpret:

$$\epsilon = \frac{\% \Delta Q_d}{\% \Delta p} = \frac{\frac{\Delta Q}{Q}}{\frac{\Delta p}{p}}$$

Contrast elasticity and slope (one changes along a linear demand curve, the other is a characteristic of a linear demand curve).

Understand why elasticity changes from point to point on a given line.

Understand what income elasticity tells you, and how the outcome can be interpreted as a normal or inferior good.

Understand what cross price elasticity tells you, and how the outcome can be interpreted as a complement or a substitute.

What determines a demand elasticity?

Preferences: what is meant by completeness, transitivity, and more is better than less?

What shapes does this give us for indifference curves?

What do indifference curves tell us?

What are the labels on the x and y axis for indifference curves?

What is the marginal rate of substitution and what determines it?

Contrast indifference curves for perfect complements from that for perfect substitutes.

What is the difference between ordinal and cardinal when it comes to utility functions?

What is the interpretation of marginal utility?

Know that the $MRS = \text{the negative ratio of the marginal utilities}$

What is a budget line composed of?

If a price or income changes how does it impact the budget line?

What is the opportunity set?

How do we know whether we are at the optimal bundle?

Is the MRS or MRT coming from the market? Which comes from the preferences of the consumer?

Be able to draw the food stamp and the matching grant policies using budget lines and indifference curves.

What is technologically efficient production? On a production function, know where is not feasible, where is technologically efficient, and where is inefficient. Also know what progress looks like. Make sure you can do this on an isoquant as well.

What is the difference between and relationship between marginal physical product and average physical product?

What is the logic behind diminishing marginal returns?

What is the difference between long run and short run production functions?

What is an isoquant, what is the label on the x-axis and what is on the y-axis, and what is the slope telling us?

What is the MRTS?

Isoquants: properties, shapes, interpretation of what they tell us.

Returns to scale: increasing, constant, decreasing.

Seven short run cost concepts.

Definition of opportunity cost.

What is the relationship between the shape of the production function and the shape of the total cost (and also marginal cost) curve?

What is an isocost line, and what labels does a graph of it have?

What slope does it have?

What is the difference between technological / technical efficiency and economic efficiency?

What is the expansion path telling us and what does this mean in terms of a total cost curve?

How do firms decide what quantity to produce in a competitive market? How is this impacted by fixed costs in the short run? How is this done in the long run?

Know why under these three assumptions, we can have a flat supply curve:

- 1) Firms can freely enter and exit
- 2) Firms are identical
- 3) Input prices are constant

Know what this implies for taxing and consumer incidence.

Where is consumer surplus found on a S and D graph, and what does it mean?

Where is producer surplus found on a S and D graph, and what does it mean?

What other areas are there (expenditure and revenue and variable cost)?

What is Pareto optimality, and what does it mean if an outcome Pareto improves on another outcome?

How does a monopolist decide what quantity to produce and what price to sell it at?

How does this impact; consumer surplus, producer surplus, and generate deadweight loss?

What are scarcity rents?

What are externalities?

What is a positive externality? What is a negative externality?

Be able to draw a negative externality graph, and identify how a perfectly competitive market takes us to a sub-optimal outcome.

Identify how a tax can take us to the socially optimal outcome.

Know what is meant by a Pigovian tax.

What is point source pollution and how does it differ from non-point source pollution?

What is the essence of the Coase theorem?

What are the policy options we have open to us to deal with a negative externality?

What lies behind the tragedy of the commons?

What policy tools do we have to deal with a tragedy of the commons?

What are public goods (and contrast them to club, private, and open access)? Note rivalry and excludability.

How does deriving the demand for a public good differ from that for a private good and why?

Why does the free rider problem arise in the provision of public goods?

What is the 'lemons market' problem, and how does it arise from information asymmetry.

What is an experience good?

What is the adverse selection problem?

What is the principal agent problem?

What is the moral hazard problem?

What is the commitment problem?

What can policy do to change preferences?

What is a utilitarian, a Rawlsian, and a multiplicative total social welfare function, how do you use them, and how do they weight different characteristics of an outcome?

What the Human Development Index, and how does it contrast with national income measures?

What is the basic idea (not the details) behind the millennium development goals?

Why might we focus on unemployment rates as well?

Same question for the number of people in absolute poverty or a headcount index as a measure of social welfare.

Be able to contrast these ideas around the core concept of measuring social welfare; the overall well being of society.

What is a consumer price index, what is meant by real and what is meant by nominal, and how does the CPI conceptually overcompensate?

What is a Lorenz curve, what is on the x-axis, what is on the y-axis.

How do you get a Gini coefficient from a Lorenz curve?

What values are 'relatively equal' and what values are 'highly unequal' for income distribution when we look around the world.

Democracy and the optimal outcome; big picture, be able to contrast the economic story (perfectly competitive market takes us to the socially optimal outcome) with the political story (democracy is not guaranteed to take us to the socially optimal outcome).

Why is this the case?

Be able to operate a Condorcet pair-wise vote problem and explain why the result happens and why this gives power to agenda setters.

Be able to illustrate the incentives for 'rent seeking' with the tariff on import graph.

Be able to contrast deadweight loss to society of a price support that is based on a quota and one that destroys surplus production.

Be able to operate a median voter theorem problem and explain why it works as it does.

Describe the idea behind hedonic methods, contingent valuation, travel cost, and averting expenditure as ways of estimating willingness to pay for non-market goods (and why do we need these methods?)

What are the fundamental issues of geographic representation (as in the electoral college example).

What are policy windows?

Be able to get the core points of the chart on page 178 that explains general reasons why the socially optimal outcome may diverge from the politically selected outcome.

Why might a public official differ from a private firm in how they view sunk costs? The incentive to innovate? The value of the marginal product of output?

How can decentralization lead to sub-optimal outcomes?

How is 'government failure' different from 'a failed government'?

What themes emerge in policy analysis in fragile states?

Be up on all the terms in tables 10.1, 10.2, 10.3, 10.4 and 10.5 in the spirit of problem set 9's first question.

Contrast freeing, facilitating, and simulating a market.

Using subsidies and taxes to alter incentives.

What are things we might be concerned about when implementing a tax?

- 1) What will be the effect on the equilibrium price? What will be the effect on the equilibrium quantity? How much revenue will be generated?
- 2) Who will bear how much of the burden of the tax? What share will be borne by consumers? By producers?
- 3) What are the implications of different types of taxes?
- 4) What is the difference between a tax on producers and a tax on consumers?
- 5) What is the difference between a tax that is fixed at a given level per unit sold and a tax that is based on a fixed share of the selling price?

Be able to draw a: specific tax on consumers, a specific tax on producers, an ad valorem tax on consumers.

Be able to describe consumer incidence and deadweight loss on these graphs.

Be able to explain how elasticity and consumer incidence are related (not to the formula level, but the idea of the more inelastic bearing the higher share, and that some share will fall on both parties except in rare circumstances)

Why do we tax? Change behavior, Generate revenue, Compensate for externalities, Protect domestic producers

Know that the more inelastic demand for a good is, the more taxing it is good at generating revenue.

Know that the more inelastic demand for a good is, the less taxing it is good at changing behavior.

If we want to generate tax revenue without causing much of a change in the equilibrium quantity, tax a relatively inelastic good.

Different taxes forms exist, but under particular conditions we looked at lead to exactly the same outcome.

Be able to draw a demand side subsidy.

Be (again) able to contrast a matching grant and the food stamp example. Discuss direct provision versus a voucher.

What is tax expenditure?

What does a supply subsidy do on a supply and demand graph?

What is direct control, and what tools are available?

What is the idea behind information provision by government and what problems is it trying to solve?

Be able to contrast the five (not the typo four from the problem set!) solution methods.

Most of lecture 16 is geared towards your papers, so I will be looking for it more there than in the exam.

What is the difference between before and after and with and without in benefit cost analysis?

What is creation of a real resource and what is a transfer of a real resource?

Be able to explain discounting; why we do it, nominal versus real, how we do it, issues about the choice of a discount rate, what it does to future values, what does a higher discount rate do to the present value of a given future value,...

Contrast IRR, NPV, and benefit cost ratio.

How do we deal with expected value?

How should we deal with value uncertainty?

What are three common counting mistakes?

Why might discounting in benefit cost analysis be limited in looking at long term problems?

Why might use of the rate on US government bonds be inappropriate to use as the discount rate for a given project?

What is the Kaldor-Hicks criterion and how does it differ from Pareto optimality?

Be able to do basic cost-benefit problems such as you had in the last problem set.