

Prof. Bryan Caplan
bcaplan@gmu.edu
<http://www.bcaplan.com>
Econ 309

Economic Problems and Public Policies Syllabus

Course Focus:

This course uses economics to analyze major economic policy issues. We start with the basics of cost-benefit analysis, risk analysis, the value of life, and the recurring shortcomings of real-world policy. Then we turn to a long list of applications: Covid, universal programs, means-tested programs, labor regulation, education, immigration, housing, energy, and environment.

Prerequisites:

I assume that you are familiar with basic microeconomics and algebra.

Texts:

Most of the course material will consist in detailed notes that will be handed out in class. There will also be required readings in each of the following:

Bryan Caplan, *The Myth of the Rational Voter*
Bryan Caplan, *Labor Econ Versus the World*
Bryan Caplan, *The Case Against Education*
Bryan Caplan and Zach Weinersmith, *Open Borders*
Alex Epstein, *Fossil Future*

Grading and Exams:

There will be one midterm and a final exam - essentially, an exam for each Part of the course. The midterm counts 40%; the final exam is 45%; homework counts for the remaining 15%. These weights are fixed - improvement on later exams will not retroactively raise your grades on earlier exams.

There is no formal grade for participation, but if you are one of the students who (in my judgment) contributes most to the quality of class discussion you will be "bumped up" a fractional grade (e.g. B- to B).

Homework:

There will be approximately four homework assignments during the semester. Depending upon how good a job you do, your homework will receive a check-plus (4 points), a check (3 points), or a check-minus (2 points) if you turn it in;

otherwise you receive 0 points. Late homework loses one point. *Late homework is no longer accepted after I pass out my suggested answers for a given assignment.*

Office Hours

The best way to contact me is by email at bcaplan@gmu.edu. Many questions and requests can be satisfied by going to my homepage at <http://www.bcaplan.com>. My office is in 11 Carow Hall; my office number is 3-2324. My official office hours are TuTh 10:15-11:45, but you can also schedule an appointment or just drop by and see if I'm available.

Tentative Schedule:

My proposed schedule for the semester follows. If it proves too ambitious, I will try to *simply say less about each topic* rather than cut the topics for the final weeks.

Week 1: Cost-Benefit Analysis, Risk, and the Value of Life

- What's the point of cost-benefit analysis?
- Cost-benefit analysis of competitive markets
- Externalities and the tragedy of the commons
- Cost-benefit analysis with externalities
- Cost-benefit analysis of gratis goods
- Why actions speak louder than words
- Risk, discount rates, and cost-benefit analysis
- Application: The value of life
- Social returns and CBA

Readings:

<https://www.econlib.org/whats-wrong-with-free/>

Week 2: Covid Policy Versus Cost-Benefit Analysis

- Contagious disease and health externalities
- Covid and the value of life
- The value of life: quantity versus quality
- NIMs, private precaution, and Covid prevention
- Crunching the numbers
- "Focused protection"
- Operation Warp Speed, Human Challenge Trials, market pricing, and vaccines

Readings:

<https://www.econlib.org/life-years-lost-the-quantity-and-the-quality/>

<https://gbdeclaration.org/>

Week 3: The Theory of Market Failure versus the Practice of Government

- Correcting for externalities
- The logic of Pigovian taxes and subsidies
- The reality of government policy
- What goes wrong: the logic of decisiveness
- The myth of the rational voter
- Social Desirability Bias and politics
- Action Bias and politics
- Availability cascades
- The ubiquity of government failure

Readings:

The Myth of the Rational Voter, Introduction plus chapters 1-2

https://www.econlib.org/archives/2014/05/demagoguery_exp.html

<https://www.econlib.org/market-failure-theory-as-reproach-to-government/>

Week 4: Universal Programs

- CBA and Redistribution
- The leaky bucket: the deadweight costs of redistribution
- Universal versus means-tested redistribution
- Effective Altruism versus universality
- Government retirement programs
- The UBI
- Gratis health care versus CBA
- Free markets versus moral hazard and adverse selection

Readings:

<https://80000hours.org/2020/08/misconceptions-effective-altruism>

Week 5: Means-Tested Programs

- The logic of means-testing
- Cash versus in-kind redistribution
- The success sequence
- The political case against means-testing
- Critique of the political case against means-testing
- EA versus nationalism
- Why the standard view of the welfare state is wrong

Readings:

<https://www.aei.org/wp-content/uploads/2017/06/IFS-MillennialSuccessSequence-Final.pdf?x91208>

Weeks 6-7: Labor Market Regulation

- The basics of labor demand and labor supply

- Unemployment as a labor surplus
- Wage regulation and disemployment
- Firing and layoff restrictions
- The wastefulness of mandated benefits
- Pro-union regulation
- Application: European unemployment
- Occupational licensing
- Why the standard history of labor is wrong
- The economics of antipathy and stereotyping
- Anti-discrimination law
- Why the standard history of discrimination is wrong

Readings:

Labor Econ Versus the World, pp.3-32

MIDTERM

Weeks 8-9: Education, Human Capital, and Signaling

- Economics of education: a short history
- Human capital purism vs. signaling
- Ability bias
- What does education signal?
- Objections to signaling
- Puzzles for human capital purism
- The ubiquity of useless education
- The handsome rewards of useless education
- The signs of signaling
- The selfish versus social returns to education
- CBA and the case for educational austerity

Readings:

The Case Against Education, Introduction and Chapter 1

Weeks 10-12: Immigration Restrictions

- Basics of immigration
- The optimal number of people
- Positive and negative externalities of population
- Immigration as trade
- Immigration and wealth creation
- CBA and the downsides of immigration
- Fiscal effects of immigration
- Cultural effects of immigration

- Political effects of immigration
- Keyhole solutions

Readings:

Bryan Caplan and Zach Weinersmith, Chapters 1-6

Week 13: Housing Regulation

- Housing regulation: the basic facts
- The effect of regulation on housing prices
- The Pigovian defense
- The Panacea policy
- Parking, traffic, schools, and pricing
- CBA versus voter self-interest?

Readings:

<https://www.brookings.edu/research/reforming-land-use-regulations/>

Week 14: Energy and Environmental Policy

- Energy: why we need it, where we get it
- Why fossil fuels dominate
- The problems of “renewable” energy
- CBA, externalities, and the value of nature
- Negative *and* positive externalities of energy
- Climate change and climate mastery
- The problem of tail risk

Readings:

Fossil Future, Chapters 4, 5, 7

FINAL EXAM
