



Aalto University
School of Business

31E99906

Microeconomics: Policy

Mo, Thu, 15:15-17:00

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Teaching assistant:

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This version of the Syllabus: Oct 22, 2021

Course Description: This class has the objective of developing microeconomics for policy analysis. The material provides a basis for private and public-sector decision making; for example, in infrastructure investments, regulation, public policy analysis, urban planning, public health, and environmental management. The over-arching conceptual framework introduced during the course is cost-benefit analysis, with the emphasis on the underlying economic principles related to: microeconomic foundations of efficiency, willingness to pay measurements, discounting, decision making under uncertainty, and market impact evaluations. Several cases covered during the course illustrate the use of the framework in practice.

Prerequisite(s): 31C01100 Mathematical Methods for Economists, 31C01200 Empirical Methods for Economists

Textbook for course: *Cost-benefit analysis: concepts and practice*

Boardman, Greenberg, Vining, and Weimer [BGVW].

Edition:4th ed.

Upper Saddle River, N.J : Pearson/Prentice Hall, cop. 2014.

ISBN:978-0-13-231148-9 (international ed.)

availability: Library + departmental copies. E-book available from the publisher.

Additional material

lecture notes

readings for the lectures

supporting material cited in the lecture notes (non-mandatory)

Advanced textbook (non-mandatory): Advanced Microeconomic Theory, GA Jehle, PJ Reny, Addison-Wesley.

Grade structure:

Reading assignments	20%
Problem sets	pass/fail (2 passes mandatory)
Case study	40%
Final exam	40%
Class contribution	10% bonus

Course structure by topics:

1. **Microeconomic foundations** (week 1)
 - Consumer theory: tools for welfare analysis
 - Risk and uncertainty
2. **Regulation of monopolies** (week 2)
 - Theory: Ramsey pricing, Yardstick competition, asymmetric information
 - Application: Electricity grids
3. **Market design for externalities** (week 3)
 - Theory: instrument design for pollution
 - Application: EU climate policies
4. **Adverse selection** (week 4)
 - Theory: insurance markets
 - Application: health care
5. **Valuation methods** (weeks 5 - 6)
 - Merger review: case study (Guest)
 - Predicting and valuing impacts of policies

Course Policies:

- **General**
 - All email correspondence regarding reading assignments and problem sets: teaching assistant
- **Teaching**
 - All lectures will be recorded and posted online prior to the scheduled lecture time. Thursday lectures are for the classroom interaction: discussion of the reading assignment (see next item), *Q&A* on the recorded lectures and problem sets.
- **Reading Assignments**
 - 5 readings in total. Grading on scale 0,1,2, with 20% impact on final the grade.
 - Two alternative methods for submitting:
 - * Read the readings and write a 500 words analysis on the topic, following the detailed directions given for each reading. You should write your reflections on the material rather than review it.
 - * Come to the classroom on Thursdays (readings are due on Thursdays), and prepare to discuss the items detailed in the directions for the reading.
- **Problem sets**

- Three sessions, with the teaching assistants as the instructor (see the schedule)
- The problem sets prepare you for the exam: the exam builds heavily on the problem sets so there is no point in copying someone else's answers.

- **Case study**

- 10-12 pages report on a policy case
- Case lectures provide material for the choice of a topic; several case topics provided during the course
- Teamwork (max 2 persons) is acceptable but the team has an impact on grading (a separate document on the case study will provide details)
- Presentations of the case studies are mandatory (see the syllabus).

- **Exam**

- Material: the textbook, problem sets, and lectures
- all credits from readings and problem sets are valid in the retake

- **Class participation bonus**

- Class participation is voluntary but rewarded in grading. There is a reading assignment for each classroom interaction (on Thursdays); presentations or discussions of the assignment constitute such activity. A student whose class contribution is excellent is someone who contributes consistently to class discussion in a balanced and relevant manner allowing room for others' input as well. The student indicates thorough preparation and analytic insight and consistently builds on the thinking of others integrating that thinking into own contributions to produce a more complete understanding of the issues being discussed. The student's responses when cold called are also of high quality. Your final grade from the course (0-100 scale) will be multiplied by 1.1 if the class contribution bonus is awarded. NOTE: if it is not possible for you to come to the classroom, you can prepare to present and discuss the assignment online to the participants in the classroom. Please sign up for such online presentation prior to the lecture by sending an email to the teaching assistant. These Thursday sessions will be streamed but not recorded.

Detailed Course Breakdown:

The weekly coverage might change as it depends on the progress of the class. However, the guest lectures are fixed.

Lecture	Content
Lecture Nov 1	<ul style="list-style-type: none">• Microeconomics foundations for policy analysis: Consumer theory and welfare• Material: Ch 1,2,3,4 in BGWV & handout• Reading assignment: Measuring deadweight losses (due Nov 4)
Lecture Nov 4	<ul style="list-style-type: none">• Microeconomics foundations for policy analysis: Uncertainty and the value of information• Material: Ch 7,8 in BGWV & lectures
Lecture Nov 8	<ul style="list-style-type: none">• Regulation of monopolies: Ramsey pricing, asymmetric information• Reading assignment: Handbook chapter on the topic (due Nov 11)
Lecture Nov 11	<ul style="list-style-type: none">• Application of monopoly regulation: electricity distribution operators• Material: lecture
Problem set 1	<ul style="list-style-type: none">• Session on Nov 12
Lecture Nov 15	<ul style="list-style-type: none">• Market design for externalities: Instruments for pollution control• Reading assignment: EU ETS (due Nov 18)
Lecture Nov 18	<ul style="list-style-type: none">• Application of market design for externalities: EU climate policies• Material: lecture
Lecture Nov 22	<ul style="list-style-type: none">• Adverse selection: Insurance markets• Reading assignment: Health care (due Nov 25)
Lecture Nov 25	<ul style="list-style-type: none">• Application: regulation of health care markets• Material: lecture
Problem set 2	<ul style="list-style-type: none">• Session on Nov 26
Lecture Nov 29	<ul style="list-style-type: none">• Valuation methods: predicting and valuing impacts of policies• Ch 14 in BGWV & lectures
Lecture Dec 2	<ul style="list-style-type: none">• Guest lecture on valuation (Consumer and competition authority): evaluating mergers• Reading assignment: merger review (due Dec 2)
Lecture Dec 9	<ul style="list-style-type: none">• Investments: uncertainty and discounting• Material: Ch 7,8 in BGWV & lectures
Problem set 3	<ul style="list-style-type: none">• Session on Dec 10
Exam	<ul style="list-style-type: none">• On Dec 13
Case study	<ul style="list-style-type: none">• presentations on Dec 14, 15, and 16. Submission deadline Dec 24, 7 pm.