Aalto University
School of Business

31E99906

Microeconomics: Policy

Mo, Thu, 15:15-17:00

Prof Matti Liski

Email: @aalto.fi
Website: https://people.aalto.fi/matti.liski
Office Location: Aalto BIZ, Y 309
Office Hours: by appointment
+358-40- 3538173
Teaching assistant:
Jan Jääskeläinen (@aalto.fi)

This version of the Syllabus: Nov 23, 2020

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	pass/fail (4 passes mandatory)
Problem sets	pass/fail (2 passes mandatory)
Case study	40%
Final exam	60%
Class contribution	10% bonus

Course structure by topics (detailed breakdown and schedule below)

1. Microeconomic foundations of policy analysis
   - **a** valuations
   - **b** efficiency
   - **c** measuring welfare changes
   - **d** policy evaluation
2. Reasons for policies
   - **a** Microeconomics of market failures in general
   - **b** Regulation of monopolies: theory
   - **c** Regulation: Moral hazard, adverse selection
   - **d** Cases: procurement, health insurance, electricity grid
3. Externalities and missing markets
   - **a** Markets for allocating public resources
   - **b** Cases: pollution, spectrum auctions
4. Estimating market impacts of policies
   - **a** demand estimation
   - **b** discrete choice experiments
   - **c** Case: housing, automobiles
5. Horizontal Mergers
   - **a** Merger guidelines and theory
   - **b** Case: Merger control in Finland
6. Discounting
   - **a** Discounting in project evaluation
   - **b** The social discount rate
   - **c** Case: nuclear power
7. Uncertainty
   - **a** Expected value analysis
   - **b** Option value and investments
   - **c** Health insurance

Course Policies:

- **General**
  - All email correspondence regarding reading assignments and problem sets: teaching assistant
- **Teaching**
  - Zoom link will be become available for each lecture. Live sessions only!
- **Reading Assignments**
  - 5-6 readings in total
  - Please 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.
  - **4 returned (and passed) readings mandatory**.
- **Problem sets**
  - Three sessions, with the teaching assistants as the instructor (see the schedule)
  - The problem sets prepare you for the exam
- **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 OK but I will elaborate the rules for teamwork in the class
  - Presentations of the case studies (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 participation in class-room activity is rewarded in grading. If there is a reading assignment for the lecture, 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.

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 Oct 26	• Introduction • Topic: Microeconomic foundations of policy analysis • Material: Ch 1,2,3 in BGVW & handout
Lecture Oct 29	• Topic: Consumer choice theory and willingness to pay/accept • Ch 4 in BGVW & handout • Reading assignment: Measuring deadweight losses
Lecture Nov 2	• Topic: Regulation theory I • Regulation of monopolies, asymmetric information • Material: lecture
Lecture Nov 5	• Topic: Regulation theory II • Adverse selection in insurance markets and Introduction to the Finnish health care reform • Material: lecture
Problem set 1	• Nov 6: Problem set 1
Lecture Nov 9	• Topic: Adverse selection in health care • Reading assignment: TBA
Lecture Nov 12	• Topic: Regulation of intellectual property • Guest: Compass Lexecon • Reading assignment: TBA
Lecture Nov 16	• Topic: Merger review: • Guest: Finnish Competition and Cons. Authority) • Reading assignment: TBA
Lecture Nov 19	• Topic: Externalities and instrument design • Material: lecture
Problem set 2	• Nov 20: Problem set 2
Lecture Nov 23	• Topic: Valuation methods • Ch 14 in BGWV &lectures
Lecture Nov 26	• Topic: Discounting • Ch 6, 10 in BGWV &lectures • Reading assignment: Hammitt et al.
Lecture Nov 30	• Topic: Uncertainty • Material: Ch 7,8 in BGWV &lectures
Lecture Dec 3	• Topic: Option value and investments
Problem set 3	• Dec 4: Problem set 3
Case study	• presentations on Dec 14, 15, and 16. Submission deadline Dec 24, 7 pm.