

Victoria University of Wellington



MASTER OF PUBLIC POLICY PROGRAMME

MAPP 522

ECONOMICS AND PUBLIC POLICY

(Second Trimester Course – 15 points)

2005 COURSE OUTLINE

Co-ordinator:

Dr Antong Victorio

Room RH 807, Rutherford House, Pipitea Campus

Phone: (04) 463 - 5709

Fax: (04) 463 - 5454

Email: antong.victorio@vuw.ac.nz

Other Contributors:

Professor Viv Hall

Room RH 401, Rutherford House, Pipitea Campus

Phone: (04) 463 - 5081

Fax: (04) 463 - 5014

Email: viv.hall@vuw.ac.nz

Administrator:

Darren Morgan

Room RH 802, Rutherford House, Pipitea Campus

Phone: (04) 463 - 5458

Fax: (04) 463 - 5454

Email: darren.morgan@vuw.ac.nz

Module Dates, Times and Locations

Module Four:	Tuesday 23 August 2005	8.30am – 6.00pm
Module Five:	Tuesday 11 October 2005	8.30am – 6.00pm
Module Six:	Tuesday 15 November 2005	8.30am – 6.00pm

Locations: Pipitea Campus.
Rooms will be advised prior to each module.

Course Objectives and Content

The course provides students with further developments in economic theory and examples of how that economic theory can be applied for policy purposes. It builds directly upon the material taught in MAPP 521. Students should consult N. Gregory Mankiw (2004, 3rd ed.) *Principles of Economics* for the basic economic theory. The material from Mankiw will be supplemented by readings on each topic, with the readings providing both theory and applications on each topic.

The themes for the course are the appropriate role for government in economic affairs, and what are the effects of government action on economic outcomes. The market failure arguments presented in MAPP 521 provide the initial impetus for investigating the role of government, and the most efficient economic instruments to be employed.

A variety of case studies will be provided. Integrating micro and macroeconomic theory, the case studies will demonstrate how economic analysis and theory can be applied, drawing upon New Zealand and overseas material.

At the end of the course, students should have:

- a good understanding of the usefulness and limitations of economic analysis for policy formulation and development;
- an appreciation of, and a basic capacity to appraise, the economic analysis emanating from other agencies or private sector economic consultants/lobbyists;
- a knowledge of different economic instruments, and the incentive effects that those instruments provide for economic agents;
- a realisation that every microeconomic decision has a macroeconomic (and budgetary) implication and vice versa; and
- a knowledge of how to apply economic principles to practical case studies.

Readings and Topic List

Textbook: N. Gregory Mankiw (2004) *Principles of Economics*, Thomson South-Western, 3rd ed.

Photocopied readings, listed according to topic below, will also be provided to students in order to supplement the text and provide relevant New Zealand and international examples. For those readings that seem highly technical, a thorough understanding of the underlying techniques is not expected.

1. Imperfect Competition and Regulation

Antong Victorio

Module Four Tuesday 23 August 2005

8.30am – 12.30pm

Mankiw: Chapters: 14, 15 and 16.

Victorio, A. (2004) “Imperfect Competition”, Chapter 4 in *Applied Models in Public Policy*, 2nd edition, Ateneo University.

Ratnayake, R. (1993) “Patterns and Causes of Industry Concentration in New Zealand”, *Department of Economics Working Paper No. 116*, University of Auckland, June.

Hall, C. and Hall, R. (2000) “Toward a Quantification of the Effects of Microsoft’s Conduct”, *American Economic Association Papers and Proceedings*, 90 (2), May.

Haugh, D. and Hazledine, T. (1999) “Oligopoly Behaviour in the Trans-Tasman Air Travel Market: The Case of Kiwi International”, *New Zealand Economic Papers*, 33 (1), June.

Hazledine, T. (2004) “Application of the Public Benefit Test to the Air New Zealand/Qantas Case”, *New Zealand Economic Papers*, 38 (2), December.

Kaserman, D. and Mayo, J. (1995) “Regulatory Pricing for Efficiency and Equity”, Chapter 15 in *Government and Business: The Economics of Antitrust and Regulation*, The Dryden Press.

- The theory of monopoly and oligopoly
- NZ industry concentration ratios and some possible explanations
- Monopoly pricing of an operating system in order to deter entry: the case of Microsoft
- The market influence of a third player upon an existing duopoly: the case of Kiwi International
- Consumer surplus and profits under strategic alliances: the case of Air New Zealand and Qantas
- Regulatory pricing practices and their consequences upon efficiency and equity.

2. Cost-Benefit and Cost-Effectiveness Analysis

Antong Victorio

Module Four Tuesday 23 August 2005

1.30pm – 6.00pm

Mankiw: Chapters 10, 11

Victorio, A. (2004) “Economic Externalities”, Chapter 5 in *Applied Models in Public Policy*, 2nd edition, Ateneo University.

Victorio, A (2004) “Public Goods”, Chapter 6 in *Applied Models in Public Policy*, 2nd edition, Ateneo University.

Weimer, D. and Vining, A. (1999) “Benefit-Cost Analysis” Chapter 12 in *Policy Analysis: Concepts and Practice*, 3rd ed. Prentice-Hall

- Victorio, A. (1994) “Rubbish Disposal: Council vs. Evaders”, Opinion column in *The Evening Post*, May.
- Fullerton, D. (1996) “Household Responses to Pricing Garbage by the Bag”, *American Economic Review* 86(4).
- Victorio, A. (2005) “The Benefits and Wider Costs of Leaving School”, Research Report for the NZ Ministry of Education, January.
- Scuffham, P., Devlin N., Eberhart-Phillips, J. and Wilson-Salt, R. (1998) “Cost-Effectiveness of Routine Varicella Vaccination in New Zealand”, *Department of Economics Working Paper No.9813*, University of Auckland.
- The consumer and producer-surplus foundations of cost-benefit analysis
 - Efficiency-improving interventions in the context of externalities and public goods
 - Automatic improvements from either Coase-theorem bargaining or altruistic motives
 - Discounting for future benefits or costs and assigning probabilities to uncertain events
 - The net benefits of rubbish-collection services: anecdotal and formal estimates
 - The net costs of leaving school early
 - The cost-effectiveness of a vaccination program

3. Trade and Open-Economy Macroeconomics Antong Victorio

Module Five Tuesday 11 October 2005 8.30am – 12.30pm

Mankiw: Chapters 3, 9, 29 and 30.

Mikic, M., Palac-McMiken, E. and Ratnayake, R. (1994) “Changing Patterns of Comparative Advantage of Selected Asian Developing Countries in the New Zealand Market” *Department of Economics Working Paper No. 141*, University of Auckland.

Rae, A. and Strutt, A. (2004) “Multilateral Agricultural Trade Reform: Potential Impacts of Current Negotiations on New Zealand”, *New Zealand Economic Papers* 38 (2), December.

Feenstra, R. (1998) “Integration of Trade and Disintegration of Production in the Global Economy”, *Journal of Economic Perspectives*, Volume 12, (4), Fall.

Slaughter, M. and Swagel, P. (1997) “Does Globalization Lower Wages and Export Jobs?”, IMF Occasional Paper No. 11, International Monetary Fund, Washington DC.

Obstfeld, M. (1998) “The Global Capital Market: Benefactor or Menace,” *Journal of Economic Perspectives* (4) Fall.

Dalziel, P. and R. Lattimore (1996) “New Zealand’s Economic Performance, 1960-1984”, Chapter 2 in *The New Zealand Macroeconomy: A Briefing on the Reforms*. Oxford University Press, Auckland.

Hazledine, T. (1996) “The New Zealand Economic Revolution After Ten Years”, *Department of Economics Working Paper No. 161*, University of Auckland.

- The case for trade: comparative advantage and the impact of exchange rates
- The impact of tariffs and quotas on consumer and producer surplus
- Trade and globalization
- Exchange rates and purchasing-power parity
- Foreign investment and capital flows
- Capital flows and globalization
- Globalization, NZ economic reforms and social capital

4. The Government Budget Constraint, in the Context of Fiscal Policy

Viv Hall

Module Five

Tuesday 11 October 2005

1.30pm – 6.00pm

Mankiw: Chapters 33, 34 and 36.

Blanchard, Olivier (1997), “Fiscal Policy: A Summing Up”, Ch. 29, pp. 588-609, in *Macroeconomics*, Prentice Hall, (or Ch. 27 in second edition, 2000; Ch. 26 in 3rd edition, 2003).

Hall, Viv B. and David Rae (1998), “Fiscal expansion, monetary policy, interest rate risk premia, and wage reactions”, *Economic Modelling*, 15, pp. 621-640.

Public Finance Amendment Act 2004, Wellington, New Zealand Government, Part 2 Fiscal Responsibility, ss 26F-26Z; available from www.treasury.govt.nz/pfssm.

Scott, Graham (1995), “New Zealand’s Fiscal Responsibility Act”, *Agenda*, 2(1), pp. 3-16.

Kotlikoff, Laurence J. and Bernd Raffelshchen (1999), “Generational Accounting around the Globe”, *American Economic Review Papers and Proceedings*, 89(2), May, pp. 161-166.

Janssen, John (2002), “Long-term fiscal projections and their relationship with the intertemporal budget constraint: An application to New Zealand”, New Zealand Treasury Working Paper 02/04, March; available from www.treasury.govt.nz. See also “Treasury’s Long Term Fiscal Model”, 19 May 2005, www.treasury.govt.nz/ltfm

Bryant, John, Audrey Sonerson, Martin Tobias, Jit Cheung and Mhairi McHugh (2005), “Population Ageing and Government Health Expenditures” New Zealand Treasury Policy Perspectives Paper 05/01; available from www.treasury.govt.nz/workingpapers/2005.

- The government budget constraint (GBC) and methods of financing government spending
- The dynamics of debt, including intertemporal sustainability
- The Public Finance Amendment Act, 2004, Part 2 Fiscal Responsibility.
- The intertemporal budget constraint (IBC) and intergenerational (im)balance

5. Time-Consistent Policy And Policy Credibility, As Applied To Monetary Policy

Viv Hall

Module Six

Tuesday 15 November 2005

8.30am – 12.30pm

Mankiw: Chapters 29, 30, 34, 35 and 36.

Miller, Roger Leroy and David VanHoose (2001), “Rules versus Discretion in Macroeconomic Policy”, Ch 13 in *Macroeconomics: Theories, Policies and International Applications* (2nd Ed.), South-Western College Publishing, pp. 456-496

Mishkin, Frederic S. (1997), “Strategies for Controlling Inflation”, in *Monetary Policy and Inflation Targeting* (ed. Philip Lowe), Sydney, Reserve Bank of Australia, pp 7-38.

Taylor, H. (1985), “Time-inconsistency: a potential problem for policy makers”, *Business Review*, Philadelphia Federal Reserve Bank, March-April. pp. 3-12. Reprinted in B. Bernanke (1987), *Readings and cases in macroeconomics*, McGraw-Hill. pp. 201-213.

Grimes, A. (1996), “Monetary Policy”, Ch 8 in Silverstone, B., A. Bollard and R. Lattimore (eds.), *A Study of Economic Reform: The Case of New Zealand*, North-Holland: Contributions to Economic Analysis, pp. 247-278.

Reserve Bank of New Zealand Act 1989, Wellington, New Zealand Government, sections 8-15, 49, 53.

Cullen, Hon. Michael and Dr Alan E Bollard (2002), “Reserve Bank of New Zealand Policy Targets Agreement”, 17 September; available from www.rbnz.govt.nz/monpol/pta

Archer, David, Andy Brookes and Michael Reddell (1999), “A cash rate system for implementing monetary policy”, *Reserve Bank Bulletin*, March, 62(1), pp 51-61; available from www.rbnz.govt.nz/research/bulletin.

Brash, Donald T. (2001), “Making Monetary Policy: a look behind the curtains”, *Reserve Bank Bulletin*, 64(1), March, pp 45-50; available from www.rbnz.govt.nz/research/bulletin

Bollard, Alan (2002), “The evolution of monetary policy in New Zealand: a speech to the Rotary Club of Wellington”, *Reserve Bank Bulletin*, 65(4), December, pp 42-45; available from www.rbnz.govt.nz/research/bulletin

Bollard, Alan (2004), “Asset prices and Monetary Policy”: an address to the Canterbury Employers’ Chamber of Commerce, *Reserve Bank Bulletin*, 67(1), March, pp 27-34; available from www.rbnz.govt.nz/research/bulletin

Hunt, Chris (2004), “Interpreting clause 4(b) of the Policy Targets Agreement: avoiding unnecessary instability in output, interest rates and the exchange rate”, *Reserve Bank Bulletin*, 67(2), June, pp 5-20; available from www.rbnz.govt.nz/research/bulletin

- Some illustrative monetary policy transmission mechanisms
- Policy rules versus discretion, the concepts of time-consistent policy and policy credibility
- Monetary policy design, the Reserve Bank of New Zealand Act, 1989 and some operational aspects of monetary policy

6. Treasury And Reserve Bank Perspectives

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Module Six

Tuesday 15 November 2005

1.30pm – 6.00pm

This session will include presentations by Reserve Bank and Treasury staff. The purpose of this session is to obtain Treasury and Reserve Bank perspectives on the role and operating procedures of these institutions and obtain further insights into how concepts such as time-inconsistency, policy credibility, policy sustainability etc influence the conduct of economic policy and the institutional framework for policy in New Zealand.

Suggested Background Reading:

Janssen, John (2001), “New Zealand’s Fiscal Policy Framework: Experience and Evolution”, New Zealand Treasury Working Paper 01/25; available from www.treasury.govt.nz.

The Treasury (2005), “Statement of Intent for the year ended 30 June 2006”; available from www.treasury.govt.nz/budget2005/soi

Goldfinch, S. and B. Roper (1993), “Treasury’s role in state policy formulation during the post-war era”, in B. Roper and C. Rudd (editors), *State and Economy in New Zealand*, Oxford, Oxford University Press, pp. 50-73.

Dalziel, P. (1993), “The Reserve Bank Act: Reflecting changing relationships between state and economy in the twentieth century”, Ch 4 in B. Roper and C. Rudd (eds.), *State and Economy in New Zealand*, Oxford University Press, pp. 74-90.

Reserve Bank of New Zealand (2005), “Monetary Policy Statement”, September; available from www.rbnz.govt.nz/monpol/statements.

Reserve Bank of New Zealand (2005), “Statement of Intent for the period 1 July 2005 to 30 June 2008”; available from www.rbnz.govt.nz/about/whatwedo

Minister of Finance, *The Budget Policy Statement 2005* (14 December 2004), *Fiscal Strategy Report*, and *Budget Economic & Fiscal Update* (19 May 2005), Wellington; available from www.treasury.govt.nz/budgets

Assessment

There are four pieces of assessment for the course:

Essay 1	1500 words	Due: Tuesday 13 September 2005 (Three weeks after module four)	35% of course grade
Test 1	(Take home)	Due: Tuesday 25 October 2005 (Two weeks after module five)	15% of course grade

Essay 2	1500 words	Due: Tuesday 15 November 2005 (Three weeks after Test 1 is due)	35% of course grade
Test 2	(Take home)	Due: Tuesday 29 November 2005 (Two weeks after module six)	15% of course grade
<u>TOTAL</u>			<u>100%</u>

The tests will vary somewhat in format. Possibilities include multiple choice, short answer-questions with or without calculations, and questions from previously assigned readings.

Essay 1 (due on Tuesday 13 September 2005) is to be an essay of no more than 1500 words on a topic to be advised. References for Essay 1 are to be those from Topics 1 and 2 on the reading list, together with input from students' own research.

Essay 2 (due on Tuesday 15 November 2005) is also to be of no more than 1500 words on a topic to be advised. References for Essay 2 are those from Topics 4 and 6 on the reading list, together with input from students' own research.

Please send / hand-in all assignments to:

Francine McGee,
School of Government,
Victoria University of Wellington,
Level 8 Reception,
Rutherford House,
23 Lambton Quay,
P.O. Box 600,
Wellington.

Students should keep a copy of all submitted work.

Deadlines and Penalties

The ability to plan for and meet deadlines is a core competency of both advanced study and public management. Failure to meet deadlines disrupts course planning and is unfair on students who do submit their work on time. It is expected therefore that you will complete and hand in assignments by the due date. Marks will be deducted at the rate of five for every working day by which the assignment is late (weekends and public holidays excluded) and no assignments will be accepted after five working days beyond the date they are due. For out of town students, two calendar days' grace is given to allow for time in the post.

If ill-health, family bereavement or other personal emergencies prevent you from meeting the deadline for submitting a piece of written work or from attending class to make a presentation, you can apply for and may be granted an extension to the due date. Note that this applies only to extreme unforeseen circumstances. You should let your course coordinator know as soon as possible in advance of the deadline if you are seeking an extension.

Faculty of Commerce and Administration Offices

Railway West Wing (RWW) - FCA Student Administration Office

The Student Administration Office is located on the ground and first floors of the Railway West Wing. The ground floor counter is the first point of contact for general enquiries and FCA forms. Student Administration Advisers are available to discuss course status and give further advice about FCA qualifications.

Easterfield (EA) - FCA/Law Kelburn Office

The Kelburn Campus Office for the Faculties of Commerce & Administration and Law is situated in the Easterfield Building - it includes the ground floor reception desk (EA 005) and offices 125a to 131 (Level 1). The office, will be open from 9:00am to 5:00pm during Trimester 2, offers the following:

- Duty tutors for student contact and advice.
- Information concerning administrative and academic matters.
- FCA Student Administration forms (e.g. application for academic transcripts, requests for degree audit, COP requests).
- Examinations-related information during the examination period.

Please note:

There will be a Student Administration Adviser, from the RWW office, based in EA 005 from Monday 27 June to Friday 1 July (9:00am to 5:00pm) and from Monday 4 July to Friday 22 July (11:00am to 1:00pm).

General University Policies and Statutes

Students should familiarise themselves with the University's policies and statutes, particularly those regarding assessment and course of study requirements, and formal academic grievance procedures.

Student Conduct and Staff Conduct

The Statute on Student Conduct together with the Policy on Staff Conduct ensure that members of the University community are able to work, learn, study and participate in the academic and social aspects of the University's life in an atmosphere of safety and respect. The Statute on Student Conduct contains information on what conduct is prohibited and what steps can be taken if there is a complaint. For queries about complaint procedures under the Statute on Student Conduct, contact the Facilitator and Disputes Advisor. This Statute is available in the Faculty Student Administration Office or on the website at www.vuw.ac.nz/policy/StudentConduct. The policy on Staff Conduct can be found on the VUW website at www.vuw.ac.nz/policy/StaffConduct.

Academic Grievances

If you have any academic problems with your course you should talk to the tutor or lecturer concerned or, if you are not satisfied with the result of that meeting, see the Head of School or the Associate Dean (Students) of your Faculty. Class representatives are available to assist you with this process. If, after trying the above channels, you are still unsatisfied, formal grievance procedures can be invoked. These are set out in the Academic Grievances Policy which is published on the VUW website at www.vuw.ac.nz/policy/AcademicGrievances.

Academic Integrity and Plagiarism

Academic integrity is about honesty – put simply it means **no cheating**. All members of the University community are responsible for upholding academic integrity, which means staff and students are expected to behave honestly, fairly and with respect for others at all times.

Plagiarism is a form of cheating which undermines academic integrity. Plagiarism is **prohibited** at Victoria.

The University defines plagiarism as follows:

Plagiarism is presenting someone else's work as if it were your own, whether you mean to or not.

'Someone else's work' means anything that is not your own idea, even if it is presented in your own style. It includes material from books, journals or any other printed source, the work of other students or staff, information from the Internet, software programmes and other electronic material, designs and ideas. It also includes the organization or structuring of any such material.

Plagiarism is not worth the risk.

Any enrolled student found guilty of plagiarism will be subject to disciplinary procedures under the Statute on Student Conduct (www.vuw.ac.nz/policy/studentconduct) and may be penalized severely. Consequences of being found guilty of plagiarism can include:

- an oral or written warning
- suspension from class or university
- cancellation of your mark for an assessment or a fail grade for the course.

Find out more about plagiarism and how to avoid it, on the University's website at www.vuw.ac.nz/home/studying/plagiarism.html.

Students with Disabilities

The University has a policy of reasonable accommodation of the needs of students with disabilities. The policy aims to give students with disabilities an equal opportunity with all other students to

demonstrate their abilities. If you have a disability, impairment or chronic medical condition (temporary, permanent or recurring) that may impact on your ability to participate, learn and/or achieve in lectures and tutorials or in meeting the course requirements, then please contact the Course Coordinator as early in the course as possible. Alternatively you may wish to approach a Student Adviser from Disability Support Services to confidentially discuss your individual needs and the options and support that are available. Disability Support Services are located on Level 1, Robert Stout Building, telephone 463-6070 or email disability@vuw.ac.nz. The name of your School's Disability Liaison Person can be obtained from the Administrative Assistant or the School Prospectus.

Student Support

Staff at Victoria want students' learning experiences at the University to be positive. If your academic progress is causing you concern, please contact the relevant Course Co-ordinator, or Associate Dean who will either help you directly or put you in contact with someone who can.

The Student Services Group is also available to provide a variety of support and services. Find out more at www.vuw.ac.nz/st_services/ or email student-services@vuw.ac.nz.

VUWSA employs two Education Coordinators who deal with academic problems and provide support, advice and advocacy services, as well as organising class representatives and faculty delegates. The Education Office is located on the ground floor, Student Union Building, telephone (04) 463 - 6983 or (04) 463 – 6984 or email education@vuwsa.org.nz.

Maori and Pacific Mentoring programme (Manaaki Pihipihinga)

This is a free programme of mentoring for Maori and Pacific students doing first year courses within the Faculty of Commerce and Administration. Weekly one hour mentoring sessions: drafting and editing assignments/discussing any questions that you might have from tutorials or lectures and going over every aspect of essay writing, either in small group sessions or on a one-to-one basis.

This includes:

- A computer suite hooked up to cyber commons for students to use to produce their assignments.
- Regular skill-based workshops with a learning adviser from Student Learning Support Services.
- Networking with other Maori and Pacific support groups throughout the university.

For more information please contact:

Melissa Dunlop, Programme Coordinator

Telephone (04) 463 - 6015 or email Maori-Pacific-Mentoring@vuw.ac.nz