

School of Government

MAPP 522 ECONOMICS AND PUBLIC POLICY (15 Points)

Trimester Two 2006

COURSE OUTLINE

Contact Details

Course Co-ordinator: **Dr Antong (Andres G) Victorio**
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Course Dates, Times and Location

Module Four: Tuesday 29 August 2006 8.30am-6.00pm

Module Five: Tuesday 17 October 2006 8.30am-6.00pm

Module Six: Tuesday 21 November 2006 8.30am-6.00pm

Location: The course will be held on the Pipitea Campus of Victoria University of Wellington. You will be advised of your classroom one week prior to the course by email.

Course Objectives

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 another textbook, *Applied Models in Public Policy* (2004, 2nd ed.) and readings on each topic intended to provide both theory and applications.

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 consultations/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 and elementary statistical techniques to practical case-studies.

Readings and Topic List

Texts: **N. Gregory Mankiw, Principles of Economics,
Thomson Southwestern, 2004 (third edition)**

**A. Victorio, Applied Models in Public Policy,
Ateneo University and Macklev Books, New York, 2004 (second edition)**

Both textbooks are available from Vicbooks, ground Floor of Rutherford House in Pipitea campus or at the Student Union Building of the Kelburn campus. Some copies are also available on loan at the Victoria University library, particularly for Applied Models in Public Policy. Additional readings may be provided as the course progresses, to supplement the material in the text.

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. Introduction to Cost-Benefit Analysis

Antong Victorio

Module 4, Tuesday 29 August

8.30am – 12.30pm

Mankiw: Chapters 3, 9, 10, 11

Victorio: Chapter 5, 6.

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*, Wellington: New Zealand Ministry of Education.

- The consumer and producer-surplus foundations of cost-benefit analysis
- Benefits and costs in trade policy
- Efficiency-improving mechanisms in externalities and public goods
- Discounting for future benefits or costs and assigning probabilities to uncertain events
- The net benefits of rubbish-collection services: anecdotal and formal estimates
- The costs of leaving school without a qualification.

2. Advanced Topics in Market Failure

Antong Victorio

Module 4, Tuesday 29 August

1.30pm – 6.00pm

Mankiw: Chapters 21, 22

Victorio: Chapter 15

Stiglitz, J. (1993), “Imperfect Information in the Product Market”, Chapter 19 in *Economics*: pp. 493-516, W.W. Norton.

Victorio, A. (2004), “Information Failures”, Chapter 6 in *Perspectives in Applied Economics*, forthcoming 2007.

_____, (2003), “U.S. Life-Cycle Saving and Social Security”, *Journal of Business and Governance*, 4, 1 (2003), pp. 1-15.

_____, (2005), “Contemporary Economic Games”, *Policy Quarterly* Vol. 1 No. 3, pp 16-22, Institute of Policy Studies, Victoria University of Wellington.

- Market failures from imperfect information about products
- The contingent commodities of an insurance market
- Adverse selection and moral hazard
- The intergenerational basis for efficient superannuation (social security)
- Insolvent superannuation and intergenerational support of education
- Imperfect information and inefficient strategic behaviour

3. Statistical Modelling and Testing for Microeconomics

Antong Victorio

Module 5, Tuesday 17 October

8.30am – 12.30pm

Victorio: Chapters 8, 9, 10

Quigley, John M., (1990) “Does Rent Control Cause Homelessness?” *Journal of Policy Analysis and Management*, Vol. 9 No. 1, pp. 89-93

Asch, P. and D. Levy, (1987) “Does the Minimum Drinking Age Affect Traffic Fatalities?” *Journal of Policy Analysis and Management*, Vol. 6 No. 2, pp. 180-192.

Ladd, H and E. Fiske, (2001) “The Uneven Playing Field of School Choice: Evidence from New Zealand,” *Journal of Policy Analysis and Management*, Vol. 20 No. 1, pp. 43-64.

Victorio, A, (2002), “Non-Market Insurance and Intrafamily Transfers”, *Applied Economics Letters*, Vol. 9, No. 2, pp. 99-102.

_____, (2006), “Search Theory and Subsidized Housing Demand in New Zealand”, forthcoming, *Applied Economics Letters*.

- The regression coefficient of ordinary-least-squares and its statistical significance
- Homelessness, rent control and omitted-variable bias
- The minimum drinking age, inexperience and omitted-equation bias (reverse causality)
- The equal-opportunity consequences of school choice
- Non-market insurance in place of a market failure in market insurance
- Search-costs in the NZ housing market

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

Viv Hall

Module 5, Tuesday 17 October

1.30pm - 6pm

Mankiw: Chapters 33, 34 and 36.

Blanchard, Olivier (2006), “Fiscal Policy: A Summing Up”, Ch. 26, pp. 553-574, in *Macroeconomics* (4th edition), Pearson Prentice Hall.

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.

Rodway, Paul and Peter Wilson (2006), “Modelling New Zealand’s Long-Term Fiscal Position”, New Zealand Treasury Policy Perspectives Paper 06/01; available from <http://www.treasury.govt.nz/workingpapers/2006/pp06-01.asp>. See also “Treasury’s Long Term Fiscal Model”, 18 May 2006, available from 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 6, Tuesday 21 November

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.

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 <http://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 <http://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 <http://www.rbnz.govt.nz/research/bulletin>

Bollard, Alan and Özer Karagedikli (2005), "Inflation Targeting: The New Zealand Experience and Some Lessons", Paper prepared for the Inflation Targeting Performance and Challenges Conference, held by the Central Bank of the Republic of Turkey, Istanbul, 19-20 January 2005; available from <http://www.rbnz.govt.nz/speeches>.

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 <http://www.rbnz.govt.nz/research/bulletin>

Bollard, Alan (2006), "Can NZ expect to carry out independent monetary policy?", Excerpt from an address to the Association of Superannuation Funds of New Zealand, 13 July 2006; available from <http://www.rbnz.govt.nz/speeches>.

- 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

Viv Hall

Module 6, Tuesday 21 November

1.30pm - 6pm

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:

- 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.
- White, William R (2006), "Is price stability enough?", BIS Working Paper No. 205, April; available from www.bis.org/publ/work205.pdf.
- Reserve Bank of New Zealand (2006), "Monetary Policy Statement", September; available from <http://www.rbnz.govt.nz/monpol/statements>.
- Reserve Bank of New Zealand (2006), "Statement of Intent, 2006-2009"; available from www.rbnz.govt.nz/about/whatwedo
- Minister of Finance, *The Budget Policy Statement 2006* (19 December 2005), *Fiscal Strategy Report*, and *Budget Economic & Fiscal Update* (18 May 2006), Wellington; available from <http://www.treasury.govt.nz/budgets>.
- The Treasury (2006), "Statement of Intent, 2006-2009"; available from www.treasury.govt.nz/soi/2006-09

Assessment Requirements

There are four pieces of assessment for the course, totalling 100% of the course grade:

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|----------------------------------|---|---------------------|
| 1. Test/Essay (Take home) | Due: Tuesday 19 September
(Three weeks after module four) | 35% of course grade |
| 2. Test/Essay (Take home) | Due: Tuesday 24 October
(One week after module five) | 15% of course grade |
| 3. Essay 1500 words | Due: Tuesday 14 November
(Three weeks after Test/Essay 2 is due) | 35% of course grade |
| 4. Test (Take home) | Due: Tuesday 28 November
(One week after module six) | 15% of course grade |

The four pieces of assessment will vary somewhat in format. Possibilities include multiple-choice testing, short answer-questions with or without calculations, quantitative case studies and questions from previously-assigned or additional readings.

Test/Essay 1 (due on Tuesday 19 September) is to be based upon Topics 1 and 2 on the reading list.

Test/Essay 2 (due on Tuesday 24 October) is to be based upon topic 3 on the reading list.

Essay 3 (due on Tuesday 14 November) will involve an issue sourced from Topics 4 and 6. Your underlying references may therefore be the readings for Topics 4 and 6, together with input from your own research.

Test 4 (due on Tuesday 28 November) will have questions drawn from material within Topics 4, 5 and 6.

Assessments should be postmarked or delivered by the due date 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.

ANZSOG candidates taking this course as an elective should note that they take it for 24 points, and not 15 points. Accordingly, the learning outcomes to be achieved by ANZSOG candidates are wider and deeper than those expected for non-ANZSOG candidates. The content of those learning outcomes, and the means whereby they will be assessed, will be negotiated and confirmed with the course co-ordinator at the start of the course.

Expected Workload

The expected workload is, on average, (a) approximately 8 hours of preparation time before the first module of the course, (b) 24 hours of class contact time and (c) approximately 10 hours of independent study per week between modules and after the final module.

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. **Electronic versions of assignments may be submitted by email, but MUST be followed by a hard copy.**

If ill-health, family bereavement or other personal emergencies prevent you from meeting the deadline for submitting your assignments, you can apply for, and may be granted, an extension to the due date. **Note that this applies only to extreme unforeseen circumstances and is not necessarily awarded.** You should let your course co-ordinator/lecturer know as soon as possible in advance of the deadline if you are seeking an extension.

Mandatory Course Requirements

To fulfil the mandatory course requirements for this course, you are required to:

1. submit all assignments by the due date, unless you have been granted an extension; and
2. attend all contact sessions of the course. If you are unable to attend a session, you must inform the course co-ordinator as soon as possible and you may be required to submit a further item of assessment.

Communication of Additional Information

Additional information may be provided in class, by post, by email or via Blackboard.

Faculty of Commerce and Administration Offices

Railway West Wing (RWW) - FCA Student and Academic Services Office

The Faculty's Student and Academic Services 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. To check for opening hours, call the Student and Academic Services Office on (04) 463-5376.

Easterfield (EA) - FCA/Education/Law Kelburn Office

The Kelburn Campus Office for the Faculties of Commerce and Administration, Education 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 is available for the following:

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

To check for opening hours call the Student and Academic Services Office on (04) 463-5376.

General University Policies and Statutes

Students should familiarise themselves with the University's policies and statutes, particularly the Assessment Statute, the Personal Courses of Study Statute, the Statute on Student Conduct and any statutes relating to the particular qualifications being studied. See the Victoria University Calendar available in hard copy or under 'About Victoria' on the VUW home page at www.vuw.ac.nz.

Student 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 are to be taken if there is a complaint. For information about complaint procedures under the Statute on Student Conduct, contact the Facilitator and Disputes Advisor or refer to the statute on the VUW policy 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; class representatives may be able to help you in this. If you are not satisfied with the result of that meeting, see the Head of School or the relevant Associate Dean; VUWSA Education Co-ordinators are available to assist in 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. The University defines plagiarism as follows:

The presentation of the work of another person or other persons as if it were one's own, whether intended or not. This includes published or unpublished work, material on the Internet and the work of other student or staff.

It is still plagiarism even if you re-structure the material or present it in your own style or words.

Note: It is, however, perfectly acceptable to include the work of others as long as that is acknowledged by appropriate referencing.

Plagiarism is prohibited at Victoria and is not worth the risk. Any enrolled student found guilty of plagiarism will be subject to disciplinary procedures under the Statute on Student Conduct and may be penalised severely. Consequences of being found guilty of plagiarism can include:

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

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 Impairments

The University has a policy of reasonable accommodation of the needs of students with disabilities. The policy aims to give students with disabilities the same opportunity as 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, please contact the Course Co-ordinator as early in the course as possible. Alternatively, you may wish to approach a Student Adviser from Disability Support Services (DSS) to discuss your individual needs and the available options and support on a confidential basis. DSS are located on Level 1, Robert Stout Building, telephone (04) 463-6070, email disability@vuw.ac.nz. The name of your School's Disability Liaison Person is in the relevant prospectus or can be obtained from the School Office or DSS.

Student Support

Staff at Victoria want students to have positive learning experiences at the University. Each Faculty has a designated staff member who can either help you directly if your academic progress is causing you concern, or quickly put you in contact with someone who can. Assistance for specific groups is also available from the Kaiwawao Māori, Manaaki Pihipihinga or Victoria International.

In addition, the Student Services Group (email student-services@vuw.ac.nz) is available to provide a variety of support and services. Find out more at www.vuw.ac.nz/st_services/.

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

Manaaki Pihipihinga - Maori and Pacific Mentoring Programme (Faculty of Commerce and Administration)

This is a mentoring service for Maori and Pacific students studying at all levels. Weekly one hour sessions are held at the Kelburn and Pipitea Campuses in the Mentoring Rooms, 14 Kelburn Parade, and Room 210 and 211, Level 2, Railway West Wing. Sessions cover drafting and discussing assignments, essay writing, and any questions that may arise from tutorials and/or lectures. A computer suite networked to Cyber Commons is available for student use.

To register with Manaaki Pihipihinga, please contact one of the following:

Puawai Wereta
Room 210, Level 2
Railway West Wing
Tel. (04) 463-8997

Email: puawai.wereta@vuw.ac.nz

Fa'afai Seiuli
Room 109 B
14 Kelburn Parade
Tel. (04) 463-5842

Email: faafoi.seiuli@vuw.ac.nz