Teaching the Economics of Policy Analysis: Lessons from the Field

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Introduction

• Public policy analysis, economics of policy analysis

• The policy analysis process

• Microeconomics, role of markets, market failures

• University Contexts:
  University of Wisconsin-Madison, La Follette School of Public Affairs
  University of North Carolina – Chapel Hill, Department of Public Policy
Introduction: What is policy analysis?

• Interdisciplinary / applied social science
• At the interface of economics, political science, philosophy, and other fields, incorporating important components of research design, statistics, causal methods, law, sociology, communication, and more.

• Public policy is the process by which we make collective decisions to solve societal problems or improve social welfare.

• Policy analysis involves identifying a public problem, bringing data and evidence to provide possible solutions to meet a set of defined goals.
• Policy analysis provides accurate information useful for decision makers, designed to solve public problems.
Introduction: Primary Course Goals

The goals for students of policy analysis are two-fold:

To become:
(1) competent consumers and constructive critics of policy analysis
(2) beginning producers of policy analysis

Introductory course (200/300 level course); heterogeneous prior economics training
Organizing the Material

Overview of Policy Analysis Process
- Define and frame a policy problem
- Identify the key stakeholders
- Articulate a role for government
- Identify the relevant evaluation criteria to choose the best policy
- Identify or create alternative policy solutions
- Assess each alternative relative to criterion
- Assess tradeoffs between alternatives
- Identify barriers to implementation
- Recommend and communicate the best alternative
Organizing the Material: Problem Definition

What is the public problem?

- Define/frame the problem (iterate!)
- Quantify and assemble evidence
- Research to collect data, statistics, evidence
- Move from “too much / too little” to quantifying the magnitudes.
- Review the literature (academic, think tanks, government)
- Review best practices – past solutions, other areas solutions
Example: Teaching Problem Definition

Health Insurance in the US (pre/post ACA)

Proposed problem statement: There are too many insured individuals in the US.

*What data do you need to collect to frame this problem?*
*How big is the problem?*
*What is the scope of the problem? Demographic / geographic?*
*What are the causes of the problem?*
*What are the consequences of the problem?*
The Power of Case Studies

Example: Soda Taxes
Soda taxes have been proposed as a policy lever designed to reduce obesity in the US.

This case offers useful discussion:
• Law of demand (own price elasticities)
• Substitution (cross price elasticities)
• Taxes, size of tax
• Tax revenue

• Why soda taxes? Market failures? Equity considerations?
Externalities, Asymmetric information
Regressive tax, regressive nature of disease burden

*So many other possibilities for case studies: I have effectively used case studies on vaccination policy; paid family leave; mass incarceration; traffic safety; and more.
Organizing the Material: Markets

- Consumer Theory, Producer Theory
- Market Equilibrium
- Social Welfare (consumer, producer surplus)
- Assumptions of Perfect Competition
- Deviations from competitive solution (price ceilings, price floors, taxes), introduction of deadweight loss
Organizing the Material: Market Failures

Market Failures, Government Solutions, Market Corrections

- Asymmetric information (moral hazard, adverse selection)
  Government, Market Corrections
- Market power (monopoly, monopsony)
  Antitrust Laws, Natural Monopolies
- Externalities (positive, negative; consumption, production)
  Pigouvian taxes/subsidies
  Coase Theorem
- Public goods
  Collective Action Problem
  Government Provision of Public Good
  Private Provision of Public Good
Challenge: Make the Case for Government Involvement

• Market Failure

• Government Failure

• Equity / Redistributive

• Challenge: scarce resources; make a compelling about why, not how
Organizing the Material: Criteria for Evaluation, Policy Alternatives

• Researched Policy Alternatives

• Criteria for Evaluation
  • Costs
  • Benefits
  • Equity

• Efficiency
  • Equity Efficiency Tradeoff

• Role of CBA/CEA
Organizing the Material: Behavioral Economics

• Limits of the neoclassical model

• Bounded rationality, bounded willpower, bounded self-interest

• How else can policy attempt to solve social problems with nudges instead of mandates?
Organizing the Material: CBA/CEA

Cost Benefit Analysis / Cost Effectiveness Analysis
• Introduction to Discounting, Present Value Calculations

• Net Present Value Calculations

• Discount rates, value of a life

• Introduction to Cost Benefit Analysis, Cost-Effectiveness Analysis

• Goal: Beginning consumers and constructive critics of CBA/CEA
Writing for Public Policy

Communication, Effective Writing

• Many ways to write for public policy
  • Policy brief / memo
  • Op-Eds
  • Researched policy paper

• Policy Paper (in phases)
  1-Problem definition, stakeholder analysis, rationale for government involvement
  2-policy alternatives, criteria
  3-analysis, barriers to implementation, recommendation
  4-executive summary, 1 page overview with graphics

• Write, rewrite (submit, revise, resubmit)
• Evidence-based policy paper
• Challenge to pick a topic outside of knowledge base
Other Tools for Class Learning

• Discussion Leadership

• Problem Sets on Markets and Market Failures

• Peer-review / Pair-and-share

• Group Presentations

• Current Events Papers, Presentations, or Journaling
Diversity of Thought

• Diversity of Thought and Perspectives

• Politics, polarization
  Election, COVID-19

• Tailor the class to current events; topics of student interest

• Set ground rules for respectful and productive discussion
Challenges of the Pandemic

• Uncertainty in teaching (Face-to-Face, Zoom)

• Difficulties of instruction, student participation, student absences

• Lack of student interactions / group experiences

• Small Grant UW-M to improve student to student interactions in our current COVID-19 environment
  - Slack
  - Paired zooms
  - Group work with greater instructor involvement
Thank you – comments and questions?
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