

# MARKETS, PUBLIC POLICY, & PUBLIC ADMINISTRATION

MPA 612: Economy, Society, and Public Policy

April 17, 2019

*Fill out your reading report  
on Learning Suite*

# PLAN FOR TODAY

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What the h\*ck did we just learn?

Why does this all matter?

What do we do now?

**WHAT THE H\*CK  
DID WE JUST LEARN?!**

# COURSE OBJECTIVES

**BY THE END OF THIS COURSE,** you will (1) be literate in fundamental economic principles, (2) understand the limits of economic theory and free markets, (3) justify government and nonprofit intervention in the economy, and (4) make informed policy recommendations by analyzing and evaluating public sector policies. Specifically, you'll be able to:

- Understand the principles of microeconomics, public economics, and behavioral economics

- Explain social phenomena using economic vocabulary and reasoning

- Predict how individuals respond to incentives

- Evaluate the costs, benefits, and long-term consequences of public and nonprofit sector policies

- Justify government intervention in the free market and identify when public policies have been unethical or failures

- Propose and argue for public and nonprofit sector policies



# THINGS YOU SHOULD KNOW FOR EXAM 1

## Capitalism

You should understand...

- ...the components of the capitalist economic system: private property, markets, and firms

- ...what happens when any of these components gets distorted

- ...what makes public goods different from regular goods (see public goods game)

- ...what institutions are and how they coordinate action

- ...what GDP is, what it measures, what it doesn't measure, what problems there are with it, what alternatives there are for it, and why it continues to be popular

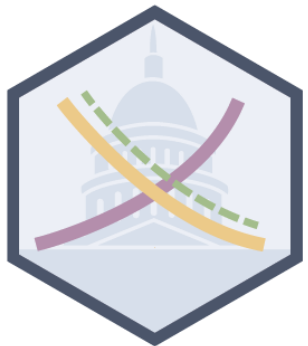
## Capitalism, markets, and public policy

Growth      Social dilemmas  
Measurement      Fairness

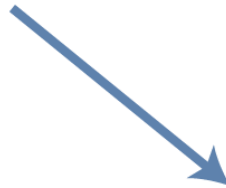


## Scarcity, power, and inequality

Preferences      Institutions      Rights



# ECONOMY, SOCIETY, AND PUBLIC POLICY



## Evaluating and implementing policies

Cost-benefit analysis      Experiments  
Causal inference      Politics



## Market failures, governments, and politics

Externalities      Public goods      Rent seeking  
Monopolies      Government intervention



## Economic models

Firms and markets      Credit markets  
Labor markets      Macroeconomics

# MAIN TAKEAWAYS

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## **Economic principles**

You now think differently.

## **Institutions**

Social phenomena are messy and complicated.

## **Analysis**

Economic analysis is great. And limited.

# MOST IMPORTANT PRINCIPLES

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Opportunity costs

Incentives

Nudges

Efficiency, fairness, equitability, justice

Markets are great

Markets can fail

We can fix those failures

We can make those failures worse

# INSTITUTIONS RULE THE WORLD

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We are influenced (greatly)  
by external institutions

Institutions are how we fix market failures

Institutions are crucial for good policy

Institutions are hard to change

# ANALYTICAL TOOLS

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Indifference curves

Supply and demand

Elasticity

Gini coefficients

Game theory

Inflation

Growth rates

CBA

Discount rates

RCTs, RDDs, Diff-in-diffs, DAGs

**WHY DOES  
THIS ALL MATTER?**

**“Evidence isn’t important  
just for accountability;  
it’s essential for innovation.”**

David Bornstein, “The Dawn of the Evidence-Based Budget”



# Duflo's recipe for fixing poverty with policy

Easy!

Understand health, education, savings, labor markets, institutions, incentives, and politics



# Duflo vs. institutional nihilism

Yes, institutions are powerful and path dependency is a thing

But there's room for substantial changes and improvements

Economic policies rooted in evidence **can** change lives and politics



# BY COMMON CONSENT

ABOUT AUTHORS FEATURES ARCHIPELAGO INTELLIGENCER BCC PRESS

## Dear American Taxpayers, Thank You for Saving My Life

 JULY 4, 2018 BY [BCCPRESSEEDITOR](#)

*Keira Shae wrote this letter in November of 2011 as part of a class assignment for a course at Utah Valley University. It was published in the Daily Herald a few months later and reprinted in several other newspapers across the country. It is reprinted as an appendix to Keira's new book [How the Light Gets In](#), which will be published by BCC Press on July 24. Among the comments the letter received when it was first published were "I'm not accepting your thanks because I was taxed, I did not not willingly give. I wouldn't have really supported you." And "a dead child is better than a welfare child." We believe that our BCC Readers will do much better in the comments section, and we offer it to you as our gift to you on this Fourth of July.*



Dear American Taxpayers,

My name is Keira, and I am twenty-three years old. I am the daughter of an uneducated, meth-addicted prostitute who was the single mother of six children. **Since 1987, you have supported me as you paid your taxes. You are the sole reason I am alive today. I am writing to thank you for it. I hope this message gets to you.**

From the moment my mother found out she was pregnant

### FEATURED POST



## Presenting "I Gave Her a Name" and "A New Constellation"

### RECENT COMMENTS

- Lona Gynt on [Let Love be Love](#)
- ReTx on [Palm Sunday: Being on the Right Side When it Is Easy](#)
- Michael Austin on [Palm Sunday: Being on the Right Side When it Is Easy](#)
- Mark on [Palm Sunday: Being on the Right Side When it Is Easy](#)
- john f. on [Palm Sunday: Being on the Right Side When it Is Easy](#)
- Megan on [The Prophet Project: How Can I Understand? by Elder Soares](#)




# For this to work, you *have* to understand economic principles

The Federal Reserve Explained in 3 Minutes

740,052 views

5K 650

 **Joshua Owens**  
Published on Feb 21, 2013

See More Videos Here: <http://www.schoolhouseschock.com>

Money - whether its a tangible piece of paper or a number on a screen - is intrinsically worthless, yet it fuels the modern world. In America the ultimate control of money rests with the bankers of the Federal Reserve System. **Because of this it is detrimental that we as citizens understand how this shadowy - private - organization works and how it's ultimate goal is to forever enslave us in a descending pit of debt that we will never crawl out of.**

Category Education



<https://www.youtube.com/watch?v=2wiZoGZJN3s>

“Conventional economics is a form of brain damage”

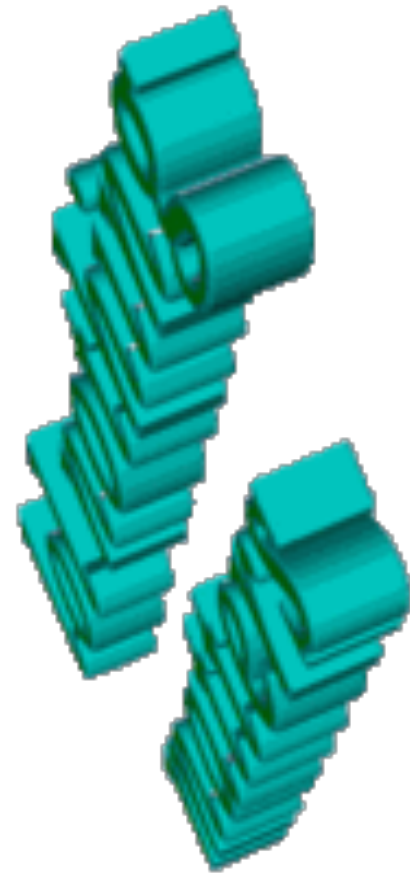
**WHAT DO  
WE DO NOW?**

Economic models are overly  
simplified and wrong

CBA numbers are  
always inaccurate

We can't measure  
anything perfectly

Politics messes everything up



# Don't succumb to public administration nihilism

You don't need perfect information

Muddling through is okay  
(and the only way)

# The Science of “Muddling Through”

By CHARLES E. LINDBLOM

*Associate Professor of Economics  
Yale University*

**S**UPPOSE an administrator is given responsibility for formulating policy with respect to inflation. He might start by trying to list all related values in order of importance, e.g., full employment, reasonable business profit, protection of small savings,

➤ Short courses, books, and articles exhort administrators to make decisions more methodically, but there has been little analysis of the decision-making process now used by public administrators. The usual process is investigated here—and generally defended against proposals for more “scientific” methods.

Decisions of individual administrators, of course, must be integrated with decisions of others to form the mosaic of public policy. This integration of individual decisions has become the major con-



# Rational-comprehensive approach

Systematically analyze every decision with perfect information, unlimited time, and unlimited intellectual capacity

In 1950s/60s, PA schools taught students to not do this because it's impossible

But they still did

GUESS WHAT WE'RE TEACHING YOU

# Successive limited comparisons approach

(“muddling through”)

Seek out empirical evidence  
+  
live with real world constraints

## Rational approach

Good policy = most appropriate means to a specific end

No variables are omitted—if so, it's an accident and bad

Proposed changes are sudden, systemic, and perfectly evidence-based

## Muddling through

Good policy = a bunch of people agree it's good enough

Variables are omitted on purpose and analysis is simplified

Proposed changes are incremental and marginal

“A wise policymaker consequently expects that his policies will achieve **only part** of what he hopes and at the same time **will produce unanticipated consequences** he would have preferred to avoid. If he proceeds through a **succession of incremental changes**, he avoids serious lasting mistakes in several ways.”

Charles Lindblom, “The Science of ‘Muddling Through’”

# **Change *must* be incremental**

Institutions are sticky and hard to change

Policies generally only get passed and adopted if they're incremental

**Choose something**

**Do it**

**If it works, improve it**

**If it doesn't work, fix it**

**If the improvement (or fix) is good  
(or bad), adjust accordingly**

**↑ Keep doing all of that ↑**