

BUSINESS ECONOMICS-5345-001: ECONOMICS OF REGULATION

Semester: Fall 2017
CRN: 38699
Meeting Time: T 5:00 PM – 7:50 PM
Meeting Place: Rawls College of Business, Room 009

Professor: Andrew Young
Office: Administration 233
Office Hours: by appointment
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COURSE DESCRIPTION: This course will study the economic criteria of public regulation of private business with emphasis on the problems of public policy. Courses focuses on helping students write a policy analysis of a set of regulations in a particular industry.

EXPECTED LEARNING OUTCOMES: After completing this course, students will understand:

1. the main economic theories of regulations;
2. the information and incentive problems that regulators confront;
3. regulatory capture and its consequences.

METHOD OF INSTRUCTION: Group discussion of assigned readings.

ASSIGNMENTS: There will be **three (3) short papers** due throughout the course of the semester and then **a final research paper**. The short papers should be about 7-10 pages (excluding references). The final research paper has no arbitrary page minimum but is expected to be (and will be graded relative to the ideal of) a publishable academic journal article.

Each of the short papers will be designed as a proposal for the final research paper. In other words, outline a research project you would like to pursue and defend it as interesting, novel, and relevant to the existing literature. Though proposals, **these papers should look, read, and “feel” like academic journal articles**. What does that mean? Part of exploring the literature is precisely to immerse yourself in and then emulate the “lingo”, style, content of said literature. One of your shorter papers will be the basis for your final research paper.

PAPER PRESENTATIONS: On the class day that each short paper is due, you will also be responsible for an approximately 20 minute presentation of the paper. PowerPoint slides are required. The presentation will be subject to class Q&A and will be part of the class presentation/participation grade.

GRADE COMPONENTS:

Paper 1	9/26	(15 points)
Paper 2	11/14	(15 points)
Paper 3	12/5	(15 points)
Final Research Paper	12/12	(35 points)
Class Presentations/Participation		(20 points)

All grades (in terms of points) will translate into a letter grade as follows.

A	=	90-100 points
B	=	80-89 points
C	=	70-79 points
D	=	60-69 points
F	=	< 60 points

Pluses and minuses will be given out *very* sparingly and at my discretion.

OUTLINE OF TOPICS BY CLASS DATE:

1. Externalities and Public Goods (8/29)

Samuelson, P. A. 1954. The pure theory of public expenditure. Review of Economics and Statistics 36(4), 387-389.

Mankiw, N. G. 1985. Small menu costs and large business cycles: A macroeconomic model of monopoly 100(2), 529-537.

2. Transaction Costs (9/5)

Coase, R. H. 1937. The nature of the firm. Economica 4(16), 386-405.

Coase, R. H. 1960. The problem of social cost. Journal of Law & Economics 3(October), 1-44.

Coase, R. H. 1974. The lighthouse in economics. Journal of Law & Economics 2(October), 357-376.

North, D. C. 1987. Institutions, transaction costs and economic growth. Economic Inquiry 25(3), 419-428.

Acemoglu, D. 2003. Why not a political Coase theorem? Social conflict, commitment, and politics. *Journal of Comparative Economics* 31, 620-652.

3. Collective Action (9/12)

Olson, M. 1965. *The Logic of Collective Action: Public Goods and the Theory of Groups*. Cambridge, MA: Harvard University Press. (chs. I and II)

Buchanan, J. M., Tullock, G. 1962. *The Calculus of Consent: Logical Foundations of Constitutional Democracy*. Ann Arbor, MI: University of Michigan Press. (chs. 1-6)

Buchanan, J. M. 1965. An economic theory of clubs. *Economica* 32(125), 1-14.

4. Rent-Seeking (9/19)

Tullock, G. 1967. The welfare costs of tariffs, monopolies, and theft. *Western Economic Journal* 5(3), 224-232.

Krueger, A. O. 1974. The political economy of the rent-seeking society. *American Economic Review* 64(3), 291-303.

5. PAPER #1 PRESENTATIONS (9/26)

6. Theories of Regulation (10/3)

Posner, R. A. 1974. Theories of economic regulation. *Bell Journal of Economics and Management Science* 5(2), 335-358.

Hertog, J. d. 1999. General theories of regulation. (in Bouckaert and de Geest., eds.) *Encyclopedia of Law and Economics*, vol. II: *The Regulation of Contracts*. Edward Elgar. (<https://dspace.library.uu.nl/bitstream/handle/1874/724/c1.pdf;jsessionid=1FA955C22D413E13CF1507AE26BB4A4A?sequence=4>)

7. Missing Markets/Asymmetric Information (10/10)

Akerlof, G. A. 1970. The market for 'lemons': Quality uncertainty and the market mechanism. *Quarterly Journal of Economics* 84(3), 488-500.

Leland, H. E. 1979. Quacks, lemons, and licensing: A theory of minimum quality standards. *Journal of Political Economy* 87(6), 1328-1346.

Stiglitz, J. E., Weiss, A. 1981. Credit rationing in markets with imperfect information. *American Economic Review* 71(3), 393-410.

8. Regulatory Capture/Chicago Theory (10/17)

Stigler, G. J. 1971. The theory of economic regulation. *Bell Journal of Economics and Management Science* 2(1), 3-21.

Peltzman, S. 1976. Toward a more general theory of regulation. *Journal of Law and Economics* 19(2), 211-240.

Becker, G. S. 1983. A theory of competition among pressure groups for political influence. *Quarterly Journal of Economics* 98(3), 371-400.

McChesney, F. S. 1987. Rent extraction and rent creation in the economic theory of regulation. *Journal of Legal Studies* 16(1), 101-118.

9. PAPER #2 PRESENTATIONS (11/14)

10. Putting Regulations into Practice (11/28)

Stigler, G. J. 1964. Public regulation of the securities markets. *Journal of Business* 37(2), 117-142.

Becker, G. S., Stigler, G. J. 1974. Law enforcement, malfeasance, and compensation of enforcers. *Journal of Legal Studies* 3(1), 1-18.

Glaeser, E., Johnson, S., Shleifer, A. 2001. Coase versus the Coasians. *Quarterly Journal of Economics* 3(1), 853-899.

11. Bootleggers and Baptists (12/4) [PROPOSED 5:00 PM – 7:00 PM]

Yandle, B. 1983. Bootleggers and Baptists – The education of a regulatory economist. *Regulation* 7(3): 12-16.

Shogren, J. F. 1990. The optimal subsidization of Baptists by bootleggers. *Public Choice* 67(2): 181-189.

Yandle, B., Buck, S. 2002. Bootleggers, Baptists, and the global warming battle. *Harvard Environmental Law Review* 26(1): 177-230.

12. The Market for Regulation (12/5) [NORMAL TIME: CRICKETS]

Boettke, P. 2010 Is the only form of ‘reasonable regulation’ self regulation?: Lessons from Lin Ostrom on regulating the commons and cultivating citizens. *Public Choice* 143(2-4): 283-291.

Klein, D. 2001. The demand for and supply of assurance. *Economic Affairs* 21(1): 4-11.

Stringham, E. 2003. The extralegal development of securities trading in seventeenth century Amsterdam. *Quarterly Review of Economics and Finance* 43(2): 321-344.

Bernstein, L. 1992. Opting out of the legal system: Extralegal contractual relations in the diamond industry. *Journal of Legal Studies* 21: 115-157.

[PAPER #3 DUE LAST DAY OF CLASS (12/5): NO PRESENTATION]

[FINAL PAPER DUE 12/12]

ACADEMIC INTEGRITY: It is the aim of Texas Tech University to foster a spirit of complete honesty and a high standard of integrity. Academic dishonesty will not be tolerated and will be treated according to the rules outlined in the Student Handbook. Please refer to Texas Tech University Operating Procedure 34.12 for more information. Thank you for upholding the integrity of the academic degree at Texas Tech University.

IMPORTANT DATES:

RELIGIOUS HOLY DAY OBSERVANCE: A student who intends to observe a religious holy day should make that intention known in writing to the instructor at least one week prior to the absence. A student who is absent from class for the observance of a religious holy day shall be allowed to take an examination or complete an assignment scheduled for that day within a reasonable time after the absence. Please refer to Texas Tech University Operating Procedure 34.19 for more information.

RESOURCES FOR DISCRIMINATION, HARASSMENT, AND SEXUAL VIOLENCE:

Texas Tech University (TTU) is committed to providing and strengthening an educational, working, and living environment where students, faculty, staff, and visitors are free from gender and/or sex discrimination of any kind. Sexual assault, discrimination, harassment, and other Title IX violations are not tolerated by the University. Report any incidents to the *Office for Student Rights & Resolution*, (806)-742-SAFE (7233) or file a report online at titleix.ttu.edu/students. Faculty and staff members at TTU are committed to connecting you to resources on campus. Some of these available resources are:

- **TTU Student Counseling Center**, 806-742-3674, <https://www.depts.ttu.edu/scc/> (*Provides confidential support on campus.*)
- **TTU Student Counseling Center 24-hour Helpline**, 806-742-5555, (*Assists students who are experiencing a mental health or interpersonal violence crisis. If you call the helpline, you will speak with a mental health counselor.*)
- **Voice of Hope Lubbock Rape Crisis Center**, 806-763-7273, voiceofhopelubbock.org (*24-hour hotline that provides support for survivors of sexual violence.*)
- **The Risk, Intervention, Safety and Education (RISE) Office**, 806-742-2110, rise.ttu.edu (*Provides a range of resources and support options focused on prevention education and student wellness.*)
- **Texas Tech Police Department**, 806-742-3931, <http://www.depts.ttu.edu/ttpd/> (*To report criminal activity that occurs on or near Texas Tech campus.*)

I RESERVE THE RIGHT: to change the syllabus. If changes are made, these will be announced in class and posted on Blackboard. I will try to limit any such changes to a minimum.