

BUSINESS ECONOMICS-5345-001: ECONOMICS OF REGULATION

Semester: Fall 2019
CRN: 38699
Meeting Time: M 5:00 PM – 7:50 PM
Meeting Place: Rawls College of Business, Room 013

Professor: Andrew Young
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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 short paper will be a proposal for the final research paper. Outline a research project you would like to pursue and defend it as interesting, novel, and relevant to existing studies. 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. 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.

PAPER GUIDELINES: Each short paper, as stated above, “**should look, read, and ‘feel’ like an academic journal article**”. While not an exhaustive list, here’s some points to keep in mind.

1. Demonstrating that your project is *novel, interesting, and important* will necessarily involve *doing a through search of relevant extant literature* and then *framing your project in terms of that extant literature*.
2. If you’re proposing an empirical paper, it has to be feasible. So ...
 - a. What data will you use?
 - b. Is that data available?
 - c. Can the data be gathered at reasonable opportunity cost?
 - d. Answers to the above are only credible if you cite sources, provide links, etc.
3. If you’re proposing a formal theory paper, it also has to be feasible. So ...
 - a. What sort of benchmark model will you be building off of?
 - b. What is its structure?
 - c. What assumptions – “bells and whistles” – will you be adding to it?
 - d. Why do you expect the above to lead to novel implications?
4. *Always, always, always* keep in mind that you have to establish the following points.
 - a. What are you asking about?
 - b. Why do I care?
 - c. What do we already know?
 - d. What don’t we know?
 - e. What are you going to do?
 - f. What important thing(s) are we going to know once you do it?

GRADE COMPONENTS:

Paper 1	9/30	(15 points)
Paper 2	10/28	(15 points)
Paper 3	12/2	(15 points)
Final Research Paper	12/9	(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. Preliminaries

(8/26)

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.

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>)

LABOR DAY

(9/2)

2. Transaction Costs and the Coase Theorem I

(9/9)

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.

Wallis, J. J., North, D. C. 1986. Measuring the transaction sector in the American economy, 1870-1970. In (Engerman, S. L., Gallman, R. E., eds.) Long-Term Factors in American Economic Growth. NBER.

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

3. Transaction Costs and the Coase Theorem II

(9/16)

Usher, D. 1998. The Coase theorem is tautological, incoherent or wrong. Economics Letters 61(1), 3-11.

Halpin, A. 2007. Disproving the Coase theorem? *Economics and Philosophy* 23(3), 321-341.

Allen, D. W. 2015. The Coase theorem: Coherent, logical, and not disproved. *Journal of Institutional Economics* 11(2), 379-390.

Arrunada, B. 2017. Property as sequential exchange: the forgotten limits of private contract. *Journal of Institutional Economics* 13(4), 753-783.

Lueck, D. 2017. Property institutions and the limits of Coase. *Journal of Institutional Economics* 13(4), 793-800.

4. Collective Action Problems (9/23)

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.

5. PAPER #1 PRESENTATIONS (9/30)

6. Rent-Seeking (10/7)

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.

Tollison, R. D. 2012. The economic theory of rent seeking. *Public Choice* 152(1-2), 73-82.

Congleton, R. D. 1988. Evaluating rent-seeking losses: Do the welfare gains of lobbyists count? *Public Choice* 56(2), 181-184.

7. Asymmetric Information: Moral Hazard (10/14)

Pauly, M. V. 1968. The economics of moral hazard: Comment. *American Economic Review* 58(3), 531-537.

Arrow, K. J. 1968. The economics of moral hazard: Further Comment. *American Economic Review* 58(3), 537-539.

Gaynor, M. 1989. The presence of moral hazard in budget breaking. *Public Choice* 61(3), 261-267.

Hammond, T. H., Miller, G. J. 1992. Moral hazard in work organizations: A comment on Gaynor, Eswaran and Kotwal, and Holmstrom. *Public Choice* 74(2), 245-256.

Gaynor, M. 1992. More on moral hazard in organizations: Reply. *Public Choice* 74(2), 257-262.

8. Asymmetric Information: Adverse Selection (10/21)

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.

9. PAPER #2 PRESENTATIONS (10/28)

10. Regulatory Capture/Chicago Theory (11/4)

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.

11. Baptists and Bootleggers (11/11)

Yandle, B. 1983. Bootleggers and Baptists – The education of a regulatory economist. *AEI Journal on Government and Society* (May/June), 12-16.

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

Clark, J. R., Lee, D. R. 2016. Higher costs appeal to voters: Implications of

expressive voting. *Public Choice* 167(1-2), 37-45.

McLaughlin, P. A., Smith, A. C., Sobel, R. S. 2019. Bootleggers, Baptists, and the risks of rent seeking. *Constitutional Political Economy* 30(2), 211-234.

12. The Constitutional Level (11/18)

Congleton, R. D. 2004. Generality and the efficiency of government decision making. In (C. K. Rowley, & F. Schneider, Eds.) *The Encyclopedia of Public Choice*. Dordrecht, The Netherlands: Springer.

Salter, A. W., Young, A. T. 2019. Polycentric sovereignty: The medieval constitution, governance quality, and the wealth of nations. *Social Science Quarterly* 100(4), 1241-1253.

Buchanan, J. M. 2010. The constitutionalization of money. *Cato Journal* 30(2), 251-258.

Salter, A. W., Young, A. T. 2019. A theory of self-enforcing monetary constitutions with reference to the Suffolk System, 1825-1858. *Journal of Economic Behavior & Organization* 156, 13-22.

SOUTH. ECON. ASSOC. MEETINGS (11/25)

13. Grab Bag: Recent Studies in the *Journal of Public Economics* (Tentative)(11/28)

Brekke, K. R., Holmas, T. H., Straume, O. R. 2015. Price regulation and parallel imports of pharmaceuticals. *Journal of Public Economics* 129, 92-105.

Harju, J., Matikka, T., Rauhanen, T. 2019. Compliance costs vs. tax incentives: Why do entrepreneurs respond to size-based regulations? *Journal of Public Economics* 173, 139-164.

Mocetti, S. 2016. Dynasties in professions and the role of rents and regulation: Evidence from Italian pharmacies. *Journal of Public Economics* 133, 1-10.

Alesina, A., Passarelli, F. 2014. Regulation versus taxation. *Journal of Public Economics* 110, 147-156.

14. PAPER #3 PRESENTATIONS (12/2)

15. FINAL PAPER DUE (12/9)

ADA STATEMENT: Any student who, because of a disability, may require special arrangements in order to meet the course requirements should contact the instructor as soon as possible to make any necessary arrangements. Students should present appropriate verification from Student Disability Services during the instructor's office hours. Please note: instructors are not allowed to provide classroom accommodations to a student until appropriate verification from Student Disability Services has been provided. For additional information, please contact Student Disability Services in West Hall or call 806-742-2405.

ACADEMIC INTEGRITY: Academic integrity is taking responsibility for one's own class and/or course work, being individually accountable, and demonstrating intellectual honesty and ethical behavior. Academic integrity is a personal choice to abide by the standards of intellectual honesty and responsibility. Because education is a shared effort to achieve learning through the exchange of ideas, students, faculty, and staff have the collective responsibility to build mutual trust and respect. Ethical behavior and independent thought are essential for the highest level of academic achievement, which then must be measured. Academic achievement includes scholarship, teaching, and learning, all of which are shared endeavors. Grades are a device used to quantify the successful accumulation of knowledge through learning. Adhering to the standards of academic integrity ensures grades are earned honestly. Academic integrity is the foundation upon which students, faculty, and staff build their educational and professional careers. [Texas Tech University ("University") Quality Enhancement Plan, Academic Integrity Task Force, 2010]

RELIGIOUS HOLY DAY OBSERVANCE: "Religious holy day" means a holy day observed by a religion whose places of worship are exempt from property taxation under Texas Tax Code §11.20. A student who intends to observe a religious holy day should make that intention known in writing to the instructor prior to the absence. A student who is absent from classes 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. A student who is excused under section 2 may not be penalized for the absence; however, the instructor may respond appropriately if the student fails to complete the assignment satisfactorily.

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.