

Department of City and Regional Planning
Fall, 2016

**Microeconomics for Planning Policy PLAN 710
(3 Credits)**

Instructor: Professor Meenu Tewari
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Class meets T, R: 9:30-10:45
Room: New East 102
Office hours: R: 1:00 – 3:00
(TBC) or by appointment

Teaching Assistant: Sophie Kelmenson: soph@live.unc.edu

Office hours: TBD; location: Room TBD

Recitation: Fridays, 12:20-1:35, Room 102

COURSE OBJECTIVES:

PL 710 is designed to introduce students to the basic principles of microeconomics with an emphasis on applying them to areas of interest to planners. We will examine how households, firms, and governments make decisions about the use and allocation of resources, how market forces shape the outcomes of those decisions; the strengths and limits market solutions and the role of public policy in shaping market outcomes, especially with respect to issues of equity and social welfare. An attempt will be made to use examples throughout the course that tie into other parts of the DCRP curriculum—such as spatial analysis, economic development, housing, transportation decisions, environmental and land-use policies.

The goal of the course is to enable students to work with basic microeconomic concepts such as demand and supply dynamics, elasticity, consumer choice, opportunity cost, pricing, production decisions, taxes and subsidies and apply them to specific planning problems.

COURSE ORGANIZATION AND REQUIREMENTS:

The class is run as a combination of lectures, class discussions, and questions and answer sessions. All students are required to come to class having read the assigned readings. This is essential for you to get the most out of the course.

The pace of the class is determined, in part, by the background of students and their prior exposure to economic analysis. Given the varied backgrounds in economics that students bring to class, it is *very important* that you let me, or the TA, know as soon as possible if the pace is too fast or too slow for you. We can work together to find solutions that work for everyone.

In addition to regular class meetings, the TA will conduct a weekly recitation session each Friday from 12:30 to 1:45. The purpose of these sessions is to review the material covered in class, bring in new examples to clarify ideas and illustrate key concepts through in-class exercises, and to review problem sets. You are strongly urged to attend all recitations. One early recitation meeting will include a math review.

You will be assigned to study groups to study together and work through problem sets and assignments. While you may solve the problems together, each student must turn in their own separate assignment and all grades will be individual (except for group assignments). Groups are an excellent learning tool but please be sure that you are completing the assignments based on your own understanding of the material.

THE HONOR CODE

The UNC honor code states: “It shall be the responsibility of every student at the University of North Carolina at Chapel Hill to obey and to support the enforcement of the honor code, which prohibits lying, cheating, or stealing when these actions involve academic processes or University, student or academic personnel acting in an official capacity.” **The honor code applies strictly.**

“The Honor Code represents UNC-Chapel Hill students' commitment to maintain an environment in which students respect one another and are able to attain their educational goals. As a student at Carolina, you are entering a community in which integrity matters-- integrity in the work you submit, and integrity in the manner in which you treat your fellow Carolina community members.” <http://newstudents.unc.edu/content/view/24/77/>

We are committed to treating Honor Code violations seriously and urge all students to become familiar with its terms set out at <http://honor.unc.edu/honor/code.html>. If you have questions it is your responsibility to ask the professor about the Code's application.

MISSING CLASS

Students are permitted to miss class for EXCUSABLE absences only (for details about what an excused absence is, see UNC-Chapel Hill's attendance policy). Students are allowed one absence without any questions from the instructor. If a student has two UNexcused absences, their grade will be affected.

DISABILITY

The University of North Carolina – Chapel Hill facilitates the implementation of reasonable accommodations, including resources and services, for students with disabilities, chronic medical conditions, a temporary disability, or pregnancy resulting in difficulties with accessing learning opportunities. All accommodations are coordinated through the Accessibility Resources and Service Office. In the first instance please visit their website <http://accessibility.unc.edu>, call 919-962-8300 or email accessibility@unc.edu. Please contact ARS as early in the semester as possible.

ASSIGNMENTS

Students will be assigned weekly problem sets of which your nine best will count towards the grade. In addition, there will be one short in-class quiz, a mid-term and a final exam. The final exam will be held in class on the last day of classes.

The short *quiz* will be *closed book*;

The *mid-term* and *final* will both be *open book, open notes* and 75 minutes long.

Assignments must be turned in at the start of class on the date they are due. Late assignments will not be accepted. Exceptions will be made if there is an emergency.

I am interested in your ongoing feedback on all aspects of the course and am open to making appropriate revisions when needed. So I look forward to hearing from you!

GRADING POLICY:

Grades for the course will be based on the following weights:

Weekly problem sets:	30% of the grade
Quiz:	10%
Group class presentation:	5%
Mid-term:	20%
Final exam:	30%
Improvement:	5%

Generally, P indicates satisfactory performance on all course objectives. An H indicates superior performance, over and above the mastery of basic concepts. A grade of P- or lower indicates that some course objectives have not been mastered.

Assignment and exam schedule:

	<u>Handed Out</u>	<u>Due in Class</u>
Assignment 0	8/23 (T)	8/30 (T) (Handed in, but not graded)
Assignment 1	8/30 (T)	9/6 (T)
Assignment 2	9/6 (T)	9/13 (T)
Assignment 3	9/13 (T)	9/20 (T)
Assignment 4	9/20 (T)	9/27 (T)
Assignment 5	9/27 (T)	10/4 (T)
Quiz [75 minutes in class]		10/4 (T) (Closed book)
Assignment	10/4 (T)	10/11 (T) (Not graded; Answers posted on 10/5-6)

Mid-Term Exam [75 minutes – Take home]	Handed out 5pm 10/10-Due 5pm 10/11 (T) (Signed Honor code; Open book)	
Assignment 6	10/18 (T)	10/25 (T)
Assignment 7	10/25 (T)	11/1 (T)
Assignment 8	11/1 (T)	11/8 (T)
Assignment 9	11/8 (T)	11/15 (T)
Assignment 10	11/15 (T)	11/22 (T)
Assignment 11	11/22 (T)	11/29 (T)
Final Exam [75 minutes in class]	12/6 (T) (Open book)	

REQUIRED TEXT:

Robert S. Pindyck and Daniel L. Rubinfeld (PR) Microeconomics, (Sixth or any other Edition), Prentice Hall. Available in the Student book store. (Second hand copies of earlier editions will also suffice)

Additional recommended readings will be posted on Sakai or circulated in class. I may bring in case material that is relevant for discussion occasionally.

You are also requested to bring in newspaper articles and other information pertinent to our class topics and themes for discussion in class. Links can be posted on Sakai for everyone's benefit. In the first week of class, I will assign each student to a group. I will also prepare a schedule for each group to make a brief presentation to the class on the assigned date any newspaper article (or case example) pertinent to that sessions material.

READINGS AND CLASS SCHEDULE

Please note:

1. We will not be covering every chapter in the text book; only the ones specified below.
2. Relevant sections within each chapter are indicated below. You are encouraged to read beyond the assigned sections, but you will be accountable only for the assigned sections.
3. ***Some sessions, and the pace of coverage, may be modified based on student performance. As a result we may occasionally depart from the schedule below.***
4. Guest speakers will be invited to discuss special topics and applications at various points in the course.

August 23 (T): Introduction: Getting a Sense of the Market and its Limits

PR, Chapters 1

Suggested: Henry Jacoby, and Robert S. Pindyck Lecture “Notes on Markets and Market Definition” (Sloan School of Management, revised July 1996)

Optional Reading:

Jane Jacobs. 1969. *The Economy of Cities*. New York: Random House. Chapter 1

Richardson, Harry W. and Gordon, Peter. “Market Planning Oxymoron or Common Sense?” *Journal of the American Planning Association*, 59, no. 3 (Summer 1993): 347-352.

PART I: Demand, Supply, Consumer Theory**August 25, 30 (R, T): The laws of Supply and Demand: Shifts and Movements**

PR Chapter 2

September 1, 6 (R, T): Supply and Demand Dynamics: Elasticity, Durability and Revenue

PR Chapter 2, pp 32 - 46 and pp. 117 - 122 in Chapter 4

For 9/6 please read: Button, Kenneth J. 1993. “Factors Which Influence Travel Demand.” In: *Transport Economics*, 2nd Edition. Pp. 40-58.

September 8, 13 (R, T): Behind the Demand Curve: Marginal Utility, Indifference Curves and Budget Constraints

PR, Chapter 3 and Sections 4.1 and 4.2 of Chapter 4

September 15, 20 (R, T): Utility Maximization and Consumer Choice: Revealed Preferences; Substitution and Income Effects, the Role of Incentives in Public Policy

PR: Rest of Chapter 4

September 22 (R): Prof. Roberto Quercia (*Application of microeconomics principles to Housing*)

Required reading: Galster and Rothenberg. 1991. “Filtering in Urban Housing: A Graphical Analysis of a Quality Segmented Market.” *Journal of Planning Education and Research* 11:37-50

September 27, 29 (T, R): Utility and Consumer Choice – Case Analysis; Uncertainty and Consumer Behavior

PR: Chapter 4: Network Externalities
 PR: Chapter 5: Uncertainty and consumer behavior – reading selections to be announced in class.

October 4 (T): Quiz [in class] CLOSED BOOK

October 6 (R): Guest Speaker, TBA: **Transportation Economics** (*application of microeconomic principles to Transportation*)

October 11 (T): University Day, No class. BUT:

MIDTERM posted on Sakai at 5PM on October 10th – DUE in my box no later than 5PM October 11th. (NOTE: Take only 75 minutes to complete it and attest to it with your signature on the honor code on the first page of the exam. Open book)

PART II: Theory of the Firm and Production

October 13, 18 (R, T): Technology, Productivity, and Costs

PR. Chapters 6 and 7

October 20 (R): Fall Break – No Class

PART III: Welfare Economics: The Economic Role of Governments, Planning Regulation and Market Failure

October 25, 27 (T, R): Profit Maximization, Economies of Scale and Scope

PR, Chapter 8, Chapter 9, and parts of Chapter 4; See page numbers below:

PR 112-115, Chapter 4;

Background Case: David A. Hounshell, From the American System to Mass Production: 1800-1932, Chapter 6.

pp. 280-281, Chapter 8

November 1, 3 (T, R): Long Run Equilibrium, Economics of Taxes and Subsidies

pp. 313-320, Chapter 9

Optional Reading:

Lindahl, Erik. "Just Taxation: a positive solution" in *Classics in the Theory of Public Finance*, R.A. Musgrave and A. T. Peacock (Eds.), Macmillan, London, 1919.

Taylor, Brian D. "When Finance Leads Planning: Urban Planning, Highway Planning, and Metropolitan Freeways." *Journal of Planning Education and Research*. 20, 2 (2000): 196-214.

Siemiatycki, Matti. "Delivering Transportation Infrastructure Through Public-Private Partnerships: Planning Concerns," *Journal of the American Planning Association*, 76 (2010): 1, 43-58,

Laura Wolf-Powers, Community Benefits Agreements and Local Government, A Review of Recent Evidence, *Journal of the American Planning Association*, Volume 76, Issue 2 (2010): 141 – 159.

November 8 (T): Consumer Surplus, Producer Surplus and the Role of Government

PR, Section 4.4 (p. 122-126) and rest of Chapter 9.
Case Analysis - Taxes and Matching Grants

Baumol, William J. "On Taxation and the Control of Externalities." *American Economic Review* 62, no. 3 (June 1972): 307-322.

November 10 (R): Monopoly (monopolistic competition, natural monopolies)

PR Chapter 10 (10.1-10.4; Sections 10.5-7 optional)

November 15 (T): Pricing with Market Power

PR Chapter 11
PR Chapter 12 pp. 436-443; 453-456

November 17 (R): Market Failures, Public Goods and Externalities – I

PR Chapter 18, Section 18.1

Schools Brief: "Missing Markets." *The Economist*.

Tiebot, Charles, 1956, "A Pure Theory of Local Expenditures." *The Journal of Political Economy*. Pp. 416-424.

Hardin, Garrett. "The Tragedy of the Commons", *Science*, Vol.162 (1968, December 13): 1243-1248, December 13.

Optional Reading:

Pigou, A.C. "Some Aspects of Welfare Economics." *The American Economic Review*, Vol. 41, No. 3.(1951): 287-302.

Bator, Francis. "The Anatomy of Market Failure," *Quarterly Journal of Economics*, 72, no.3 (1958): 351–379.

1 Coase, Ronald H. "The Lighthouse in Economics", *Journal of Law and Economics*, Vol. (October 1974): 357-376.

Ahlers, Rhodante. "Fixing and Nixing: The Politics of Water Privatization." *Review of Radical Political Economics*, 42 (2010): 213

Connerly, Charles. "From Racial Zoning to Community Empowerment: The Interstate Highway System and the African-American Community in Birmingham, Alabama." *Journal of Planning Education and Research* 22, no.2 (2002): 99-114.

November 22 (T): Market Failures, Public Goods and Externalities – II

PR Rest of Chapter 18.

Landis, John, Lan Deng, and Michael Riley. "Growth Management Revisited," University of California, Institute for Urban and Regional Development, working paper 2000-02. pp 1-48.

Optional reading:

Stiglitz, Joseph. "The Private Uses of Public Interests: Incentives and Institutions." *Journal of Economic Perspectives* 12 (Spring 1998): 3-22.

Arrow, Kenneth. "The Organisation of Economic Activity: Issues Pertinent to the Choice of Market vs. Non-Market Allocation", in *Public Expenditures and Policy Analysis*, Ed. R.H. Haveman and J. Margolis. Markham Press, Chicago, 1970.

Thompson, Gregory. "Planning Beats the Market: The Case of Pacific Greyhound Lines in the 1930s." *Journal of Planning Education and Research* 13, no.1 (October 1993): 33-49.

November 24 (R): THANKSGIVING – No Class

November 29 (T): Basics of Cost Benefit Analysis (Introduction)

PR Chapter 15

Weitzman, Martin L. 1999. "Gamma Discounting." *American Economics Review* No. 1, pp. 260-271

Coase, Ronald. "The Problem of Social Cost." *Journal of Law and Economics*,

Vol.3 (October 1960): 1-44.

December 1 (R): Basics of Cost Benefit Analysis –II (Game)

Class Exercise on economic incentives and the fiscal competition between states

December 6 (T): FINAL EXAM – In Class; Open book