

This core course of the MPM takes a practitioner-oriented perspective to the study of economics and its applications in public management. Students will learn that economics is not a single, unified subject, but more a “collection of models” (Rodrik, 2015). What is critical in public management is knowing which economics concept/model to apply to the policy issue or problem at hand.

This course consists of three parts. The first part of the course will be on **microeconomics**. We shall examine why markets work (through the perspectives of Smith, Ricardo, and Hayek) and the various ways in which markets can fail, e.g., public goods, externalities, informational asymmetries, and collective action problems. We will learn that well-functioning markets sometimes require governments to enable, regulate, stabilise, and legitimise markets. Students will be required to write an essay on some of the concepts covered in this part of the course and apply them to a particular policy issue or problem.

In the second part of the course, we will look at the various ways in which individuals may “fail” and what this means for policies and public management. Through the lens of **behavioural economics**, we will explore how agents’ preferences, beliefs and decision processes depart or deviate from rational choice models. Students will be required to take a mid-term examination that covers the concepts discussed in the first two parts of the course.

In the third and final part of the course, we will study **macroeconomic** phenomena such as unemployment, inflation, growth, exchange rates, and trade imbalances. We will study real-world economic issues/challenges such as the US-China trade war, de-globalisation or decoupling, and current macroeconomic challenges. Students will also write a newspaper commentary that applies the concepts discussed in the third part of the course.

This course aims to:

- Equip students with a **rigorous and economically sound way of analysing of public policies**
 - o Students would learn to analyse policies and policy problems as economist.
 - o See and explain the world as an “economic naturalist”.
- Foster **an inter-disciplinary understanding** of public management
 - o Appreciate how economics interact with other disciplines.
 - o Learn to bring a variety of perspectives to bear in analysing governments.
- Help students appreciate **the diversity of economics ideas**, how they relate to one another, and how they (should) influence our views on public policy and governance
 - o Learn to situate economic theories in their appropriate contexts; and
 - o Reflect on where the discipline is headed and how it should be reformed.

Instructor: Professor Donald Low (donaldlow@ust.hk)

Class: Wednesday, 7:00 – 9:50 pm (Tower 1 Millenium, Rm 3004)

Office hours: Wednesday, 4:00 pm – 5:30 pm (Rm 4616F, PPOL office)

Readings

Some of the readings are written by academic or professional economists. However, many are drawn by general publications, such as The Economist and Financial Times. Students are encouraged to purchase How Markets Fail: The Logic of Economic Calamity by John Cassidy (2010).

Assessment

		Students are required to write an essay of <u>no more than 1,500 words</u> on a particular policy issue, focussing on how the policy issue should be analysed using the microeconomic concepts covered in this part of the course. The memo must be submitted by 4 Oct, 23:00 .
		The microeconomic concepts students can discuss in the essay include:
		1. Prices as signalling and rationing devices
		2. Why markets/prices create the right incentives
		3. Cost-benefit analysis; marginal cost and marginal benefit
		4. Price discrimination
		5. Public goods
		6. Externalities or spillovers
		7. Monopoly power
		8. Informational asymmetries, e.g., adverse selection, moral hazard, principal-agent problems
		9. Collective action problems or rational irrationality, e.g. tragedy of commons, paradox of thrift
1. Essay applying microeconomic concepts in a particular policy issue	25%	
2. Mid-term exams	30%	The in-class mid-term exams (no use of electronics) on 28 Oct will consist of multiple-choice questions and short-essay responses.
3. Commentary	Presentation: 5%	Students will work in pairs to write a commentary/op-ed of <u>1,200-1,400 words</u> on a current policy issue, suitable for publication by a leading English newspaper. This assignment is to be submitted online by 7 Dec 23:59 .
	Commentary: 25%	

4. Class participation	15%	Students are expected to attend every class and participate actively in class by asking, and responding to, questions.
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The class week-by-week

Class (Date)	Topic
1 (2 Sep)	The Magic of Markets
	1. Leonard E. Read, "I, Pencil: My Family Tree as told to Leonard E. Read"
	2. Ha-Joon Chang, Economics: The User's Guide, Ch 4
	3. The Economist, Snowbound China: Megaphone apology, 7 Feb 2008
2 (9 Sep)	Case study:
	4. The Economist, "The economics of lockdowns: Lives v livelihoods", 3 Jul 2021
	How Markets Fail I: Monopoly power and missing markets
	1. John Cassidy, How Markets Fail: The Logic of Economic Calamity, Ch 1-6
3 (16 Sep)	Case studies:
	2. The Economist, "Are data more like oil or sunlight?", 20 Feb 2020
	3. The Economist, "China's attack on tech", "What tech does Xi want?", 14 Aug 2021
	How Markets Fail II: Informational asymmetries and coordination problems
4 (23 Sep)	1. John Cassidy, How Markets Fail: The Logic of Economic Calamity, Ch 9-13
	2. Tim Harford, The Undercover Economist, Ch 5
	3. David Bollier, "The only woman to win the Nobel Prize in Economics also debunked the Orthodoxy", Economics, 28 Jul 2015
	Case study:
	4. The Economist, "Heading for the emergency room", 25 June 2009
	Global Financial Crisis (2007-2009)
	1. John Cassidy, How Markets Fail: The Logic of Economic Calamity, Ch 17-23

2. The Inside Job (<https://vimeo.com/330323183>)

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Behavioural Economics I: Non-standard preferences

(30 Sep)

1. Stefano DellaVigna, "Psychology and Economics: Evidence from the Field", Journal of Economic Literature 2009, 47:2, 315–372

Behavioural Economics II: Non-standard beliefs and decision processes

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1. World Bank, World Development Report 2015: Mind, Society and Behaviour, Overview, Ch 1-3

(7 Oct)

2. Donald Low, "Why we can't think straight about the coronavirus crisis (and what to do about it)", South China Morning Post, 11 Feb 2020

3. Donald Low and Xun WU, "Covid-19 and climate change have a lot more in common than you think", TODAY, 12 Mar 2020

Nudges: Applying behavioural economics in public management

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(14 Oct)

1. The Behavioural Insights Team, 2014. "EAST: Four simple ways to apply behavioural insights", Executive Summary

2. Donald Low, "Coronavirus won't just go away. Here's how Hong Kong can learn to live with it.", South China Morning Post, 1 Aug 2021

Organisation behaviour and the biases of professionals

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(21 Oct)

1. Daniel Kahneman, "Don't Blink! The Hazards of Confidence", New York Times Magazine, 19 October 2011. (<https://www.nytimes.com/2011/10/23/magazine/dont-blink-the-hazards-of-confidence.html>)

2. Daniel Kahneman, "Thinking, Fast and Slow", 2011, Farrar, Straus and Giroux. Chapters 23-24

3. World Development Report 2015, Ch 10

4. The Behavioural Insights Team, 2018. "Behavioural Government: Using behavioural science to improve how governments make decisions, Executive Summary.

Mid-Term Exams (19:00 – 20:15)

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Macroeconomics I: GDP Accounting

(28 Oct)

1. The Economist, "What went wrong with economics", 16 Jul 2009

2. Martin Wolf, The Shifts and the Shocks: What We've Learned – and Have Still to Learn from the Financial Crisis, Chapter 4

3. The Economist, "China's current account surplus is vanishing", 14 Mar 2019

Macroeconomics II: Macroeconomic stabilisation

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1. The Economist, "Why does unemployment no longer lift inflation?", 20 Aug 2020

(4 Nov)

2. The Economist, "Trade inflows in Asia fuel debate over currency intervention", 23 Mar 2021

3. The Economist, "If China's economy is so strong, why isn't its currency stronger?", 31 October 2020

Macroeconomics III: Trade imbalances and other current macroeconomic challenges

1. The Economist, "China's 'dual-circulation' strategy means relying less on foreigners, 7 Nov 2020

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2. The Economist, "The covid-19 pandemic is forcing a rethink in macroeconomics", 25 Jul 2020

(11 Nov)

3. The Economist, "China's industrial policy has worked better than critics think", 2 Jan 2020

4. Financial Times, "What can really cure deflation in China?", 18 Aug 2025

Case study:

The Economist, "Why is the idea of import substitution being revived?", 7 Nov 2020

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China's post-Covid slowdown

(18 Nov)

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Student presentations

(25 Nov)