

PPOL 5280: Economic Reasoning for Public Management

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 discipline, but really a “collection of models” (Rodrik, 2015). What is critical in public management is knowing which economics concept or model to apply to the policy issue or problem at hand.

This course consists of three parts. In the first part of the course, we will 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 often require governments to enable, regulate, stabilise, and legitimise markets. Students will be required to write a short essay on some of the concepts covered in this part of the course and apply them to a particular policy domain.

In the second part of the course, we will examine 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 macroeconomic challenges after the pandemic. Students will also take a mid-term examination that will cover the concepts discussed in the first two parts of the course.

In the final part of the course, we will look at the various ways agents (including governments) 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 write a newspaper commentary/op-ed applying concepts from the last two sections of the course for their final assignment.

This course aims to:

- Equip students with a **rigorous and economically sound way of analysing of public policies**
 - Students would learn to analyse policies and policy problems as economist.
 - See and explain the world as an “economic naturalist”.
- Foster **an inter-disciplinary understanding** of public management
 - Appreciate how economics interact with other disciplines.
 - 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
 - Learn to situate economic theories in their appropriate contexts; and
 - Reflect on where the discipline is headed and how it should be reformed.

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

Class: Tuesday, 6:30 – 10.00 pm (Tower 1 Millenity, Rm 3004)

Office hours: Tuesday, 4:30 pm – 5:30 pm

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

1. Essay on microeconomic concepts in a particular policy issue	25%	Students are required to write an essay of <u>no more than 1,400 words</u> on a particular policy issue, focussing on how the issue can/should be analysed using the microeconomic concepts covered in this part of the course. The memo must be submitted online by 7 Oct, 23:59. The microeconomic concepts students can discuss 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
2. Mid-term exams	Part I: 20% Part II: 10%	The in-class mid-term exams on 28 Oct will consist of multiple-choice questions and short-essay responses.
3. Commentary/Op-ed	Presentation: 5% Paper: 25%	Commentary/Op-ed on a current policy issue: Students will work individually or 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 Fri, 5 Dec 23:59 .
4. Class participation	15%	Students are expected to participate actively in class by asking, and responding to, questions.

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 <i>Case study:</i> 4. The Economist, "The economics of lockdowns: Lives v livelihoods", 3 Jul 2021
2 (9 Sep)	How Markets Fail I: Monopoly power and missing markets 1. John Cassidy, How Markets Fail: The Logic of Economic Calamity, Ch 1-6 <i>Case studies:</i> 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
3 (16 Sep)	How Markets Fail II: Informational asymmetries and coordination problems 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 <i>Case study:</i> 4. The Economist, "Heading for the emergency room", 25 June 2009
4 (23 Sep)	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)
5 (30 Sep)	Macroeconomics I: GDP Accounting 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
6 (14 Oct, online class)	Macroeconomics II: Macroeconomic stabilisation 1. The Economist, "Why does unemployment no longer lift inflation?", 20 Aug 2020 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

7 (21 Oct)	Macroeconomics III: Trade imbalances and other macroeconomic challenges 1. The Economist, “China’s ‘dual-circulation’ strategy means relying less on foreigners, 7 Nov 2020 2. The Economist, “The covid-19 pandemic is forcing a rethink in macroeconomics”, 25 Jul 2020 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 <i>Case study:</i> The Economist, “Why is the idea of import substitution being revived?”, 7 Nov 2020
8 (28 Oct)	Mid-Term Exams
9 (4 Nov)	Behavioural Economics I: Non-standard preferences 1. Stefano DellaVigna, “Psychology and Economics: Evidence from the Field”, Journal of Economic Literature 2009, 47:2, 315–372
10 (11 Nov)	Behavioural Economics II: Non-standard beliefs and decision processes 1. World Bank, World Development Report 2015: Mind, Society and Behaviour, Overview, Ch 1-3 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
11 (18 Nov)	Nudges: Applying behavioural economics to public management 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
12 (Sat, 29 Nov, (9:30 am – 1:00 pm)	Student presentations (on Zoom)