

## 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) model to apply to the policy problem or issue at hand.

This course consists of three parts. In the first part of the course (4 classes), we will examine why markets work (through the perspectives of Smith, Ricardo, and Hayek) and the multiple ways in which markets can fail, e.g., public goods, externalities, informational asymmetries, and collective action problems. More often than the standard economics has tended to acknowledge, well-functioning markets require governments to enable, regulate, stabilise, and legitimise markets. Students will be required to write a policy memo on market failures in a particular policy domain for this part of the course.

In the second part of the course (4 classes), 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-)globalization, and macroeconomic management after the pandemic. Students will also take a mid-term examination that will cover the concepts covered in the first two parts of the course during this part of the course.

In the third and final part of the course (4 classes), we will look at the various ways economic agents (including governments) may “fail” and what this means for public 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 an op-ed applying some of the behavioural concepts discussed in class to a policy problem in this part of the course.

This course aims to:

- Equip students with a **practical, rigorous, and economically grounded understanding of public policies**
  - Students would learn to analyse policies and policy problems as economist;
  - See and explain the world as an “economic naturalist”; and
  - Appreciate the limits of economics and know when other disciplines are needed to inform our analysis.
- Give students **an inter-disciplinary understanding** of public management
  - Appreciate how (the various schools of) economics interacts with other disciplines; and
  - Learn to bring a variety of perspectives to bear in analysing governments (learn to be a fox, not a hedgehog).
- 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: Wednesday, 6:30 – 9.20 pm (Rm 1410)

Office hours: Wednesday, 4:00 pm – 6:00 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. Policy memo on market failures in a particular policy domain	25%	Students are required to a policy memo of <u>no more than 1,400 words</u> on the market failures in a particular policy issue and give examples of how governments can/should deal with those market failures. The memo is to be submitted online before class on <b>6 Oct</b> .
2. Mid-term exams	30%	The in-class mid-term exams on <b>1 Nov</b> will consist of multiple-choice questions and short-essay responses.
3. Op-ed/Commentary	30%	<b>Op-ed/Commentary on a current policy issue:</b> Students will work in groups of 2-3 members each to write a policy brief of <u>1,500-1,800 words</u> on a current policy issue, suitable for submission to the minister-in-charge.  The brief is to be submitted online by <b>Friday, 8 Dec 23:59</b> .
4. Class participation	15%	Students are required to participate actively in class by asking, and responding to, questions.

## The Course Week by Week

Class (Date)	Topic
1 (6 Sep)	<b>Introduction: Why Markets Work</b> 1. Leonard E. Read, “I, Pencil: My Family Tree as told to Leonard E. Read” 2. Ha-Joon Chang, <i>Economics: The User’s Guide</i> , Ch 4 3. The Economist, <i>Snowbound China: Megaphone apology</i> , 7 Feb 2008 <b>Case studies:</b> 4. The Economist, “‘Sin’ taxes—eg on tobacco—are less efficient than they look”, 28 Jul 2018 5. The Economist, “The economics of lockdowns: Lives v livelihoods”, 3 Jul 2021
2 (13 Sep)	<b>How Markets Fail I: Monopoly power and missing markets</b> 1. John Cassidy, <i>How Markets Fail: The Logic of Economic Calamity</i> , Ch 1-6 <b>Case studies:</b>

	<ol style="list-style-type: none"> <li>2. The Economist, “Are data more like oil or sunlight?”, 20 Feb 2020</li> <li>3. The Economist, “China’s attack on tech”, “What tech does Xi want?”, 14 Aug 2021</li> </ol>
3 (20 Sep)	<p><b>How Markets Fail II: Informational asymmetries and coordination problems</b></p> <ol style="list-style-type: none"> <li>1. John Cassidy, <i>How Markets Fail: The Logic of Economic Calamity</i>, Ch 9-13</li> <li>2. Tim Harford, <i>The Undercover Economist</i>, Ch 5</li> <li>3. David Bollier, “The only woman to win the Nobel Prize in Economics also debunked the Orthodoxy”, <i>Economics</i>, 28 Jul 2015</li> </ol> <p><b>Case study:</b></p> <ol style="list-style-type: none"> <li>4. The Economist, “Heading for the emergency room”, 25 June 2009</li> </ol>
4 (27 Sep)	<p><b>Global Financial Crisis (2007-2009)</b></p> <ol style="list-style-type: none"> <li>1. John Cassidy, <i>How Markets Fail: The Logic of Economic Calamity</i>, Ch 17-23</li> <li>2. <i>The Inside Job</i> (<a href="https://vimeo.com/330323183">https://vimeo.com/330323183</a>)</li> </ol>
5 (4 Oct)	<p><b>Students to submit their policy memos before the start of class.</b></p> <p><b>Macroeconomics I</b></p> <ol style="list-style-type: none"> <li>1. The Economist, “What went wrong with economics”, 16 Jul 2009</li> <li>2. Martin Wolf, <i>The Shifts and the Shocks: What We’ve Learned – and Have Still to Learn from the Financial Crisis</i>, Chapter 4</li> <li>3. The Economist, “China’s current account surplus is vanishing”, 14 Mar 2019</li> </ol>
6 (11 Oct)	<p><b>Macroeconomics II</b></p> <ol style="list-style-type: none"> <li>1. The Economist, “Why does unemployment no longer lift inflation?”, 20 Aug 2020</li> <li>2. The Economist, “Trade inflows in Asia fuel debate over currency intervention”, 23 Mar 2021</li> <li>3. The Economist, “If China’s economy is so strong, why isn’t its currency stronger?”, 31 October 2020</li> </ol>
7 (18 Oct)	<p><b>Economics after the pandemic</b></p> <ol style="list-style-type: none"> <li>1. The Economist, “China’s ‘dual-circulation’ strategy means relying less on foreigners”, 7 Nov 2020</li> <li>2. The Economist, “The covid-19 pandemic is forcing a rethink in macroeconomics”, 25 Jul 2020</li> <li>3. The Economist, “China’s industrial policy has worked better than critics think”, 2 Jan 2020</li> </ol> <p><b>Case study:</b></p> <ol style="list-style-type: none"> <li>4. The Economist, “Why is the idea of import substitution being revived?”, 7 Nov 2020</li> </ol>
8 (25 Oct)	<p><b>Inequality</b></p> <ol style="list-style-type: none"> <li>1. Jonas Pontusson (2005), <i>Inequality and Prosperity: Social Europe vs Liberal America</i>, Ch 7</li> <li>2. The Economist, “Special report on inequality”, 13 Oct 2012</li> <li>3. The Economist, “An incurable disease”, 29 Sep 2012</li> <li>4. The Economist, “The rising cost of education and health care is less troubling than believed”, 29 Jun 2019</li> </ol>

9 (1 Nov)	<b>Mid-Term Exams</b>
10 (8 Nov)	<b>Behavioural Economics: Non-standard preferences</b> 1. Stefano DellaVigna, “Psychology and Economics: Evidence from the Field”, <i>Journal of Economic Literature</i> 2009, 47:2, 315–372
11 (15 Nov)	<b>Behavioural Economics: Non-standard beliefs and decision processes</b> 1. World Bank, <i>World Development Report 2015: Mind, Society and Behaviour</i> , Overview, Ch 1-3 2. Donald Low, “Why we can’t think straight about the coronavirus crisis (and what to do about it)”, <i>South China Morning Post</i> , 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
12 (22 Nov)	<b>Nudges: Applying behavioural economics to public management</b> 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.”, <i>South China Morning Post</i> , 1 Aug 2021
13 (29 Nov)	<b>Organisation behaviour</b>