

holy crap what did we just learn

MPA 612: Public Management Economics

April 18, 2018

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Plan for today

holy crap what did we just learn

why does this all matter

how do we do stuff with
all this knowledge



VICE News ✓

@vicenews

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More than 200 people donated money to get Elon Musk, who is worth around \$20 billion, a new couch



People are crowdfunding a new couch for Elon Musk, who owns five...

Elon Musk owns five mansions but people still want to buy him a couch.

news.vice.com

12:57 PM - 17 Apr 2018



Courtney Miller

@court_miller_

Follow



I figured the Twitter world would like to know that Elder Uchtdorf is sitting down the row from me at Hamilton right now, which somehow makes the church truer than it was before, if you ask me.

7:12 PM - 17 Apr 2018

177 Retweets 1,478 Likes



holy crap what
did we just learn

Course objectives

By the end of this course, you will (1) be literate in fundamental economic principles, (2) understand the limits of economic theory and free markets, (3) justify government and nonprofit intervention in the economy, and (4) make informed policy recommendations by analyzing and evaluating public sector policies. Specifically, you'll be able to:

Understand the principles of microeconomics, public economics, and behavioral economics

Explain social phenomena using economic vocabulary and reasoning

Predict how individuals respond to incentives

Evaluate the costs, benefits, and long-term consequences of public and nonprofit sector policies

Justify government intervention in the free market and identify when public policies have been unethical or failures

Propose and argue for public and nonprofit sector policies

Things you should know for the first midterm

Markets and capitalism

You should understand...

...the components of the capitalist economic system: private property, markets, and firms

...what happens when any of these components gets distorted

... what makes public goods different from regular goods (see public goods game)

...what institutions are

...the difference between absolute and comparative advantage and why specialization is a critical part of capitalism

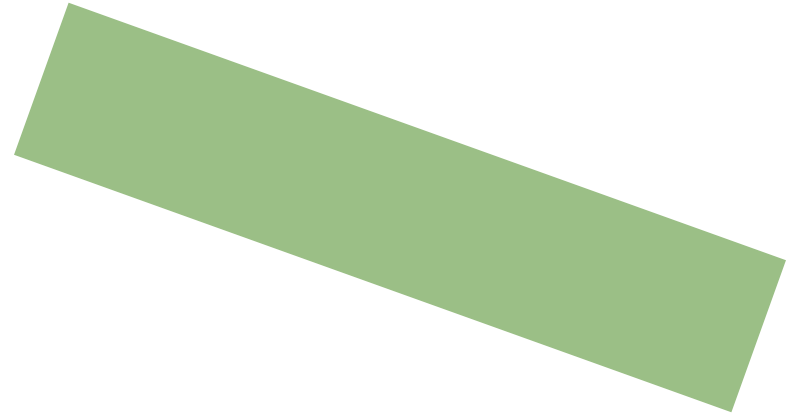
...what GDP is, what it measures, what it doesn't measure, what problems there are with it, what alternatives there are for it, and why it continues to be popular

...the difference between real and nominal values (and why we care)

...what a price index is

...what purchasing power parity (PPP) is (and also what the Big Mac Index is)

...how inequality is measured and why we should care about inequality



Games and simulations played in class:

Economic principles

You now think differently

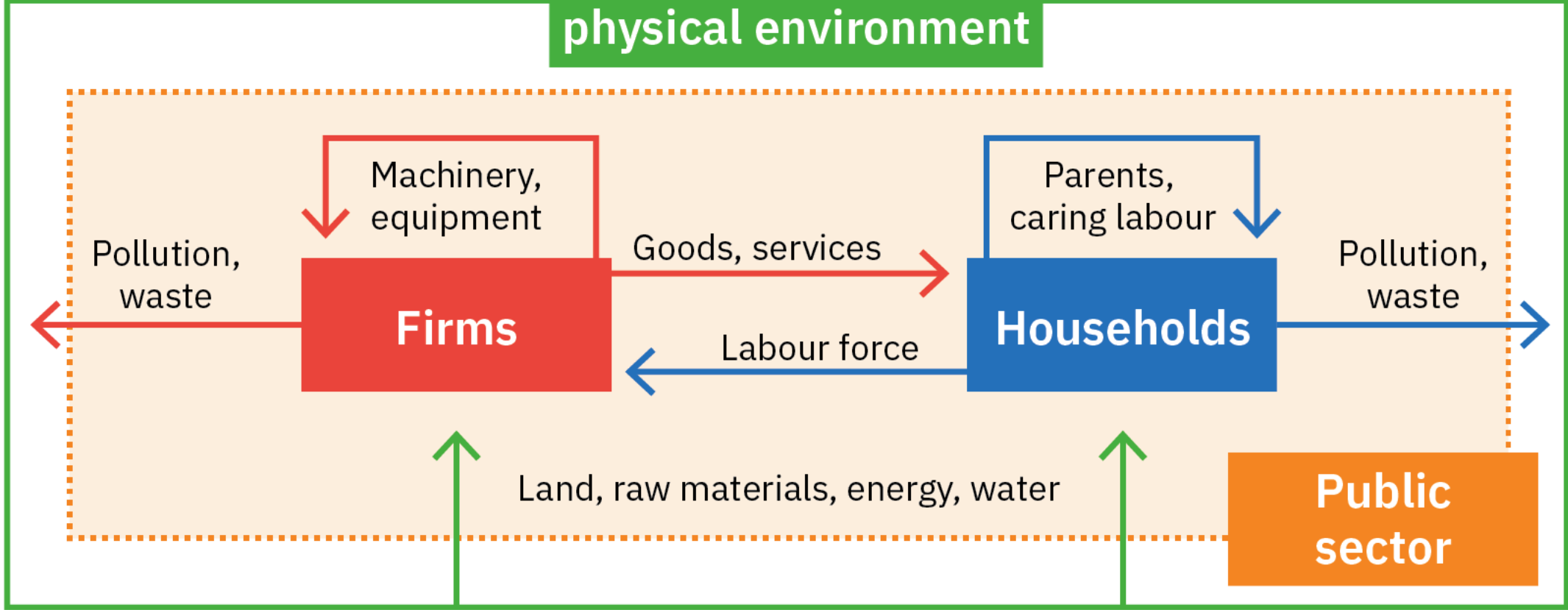
Institutions

Social phenomena are messy and complicated

Analysis

Economic analysis is great. And limited.

Biosphere and physical environment



Most important economic principles

Opportunity costs

Incentives Nudges

Efficiency, fairness, equitability, justice

Markets are great Markets can fail

We can fix those failures

We can make those failures worse

Institutions rule the world

We are influenced (greatly)
by external institutions

Institutions are we fix market failures

Institutions are crucial for good policy

Institutions are hard to change

Analytical tools

EVIDENCE-BASE



ALL THE THINGS

Analytical tools

Indifference curves

Supply and demand

CBA

VSL

Discount rates

Monte Carlo simulation

Sensitivity analysis

RCTs, RDDs, Diff-in-diffs

Fake numbers and
causality continuums

Economic principles

You now think differently

Institutions

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why does this all matter

**"Evidence isn't important
just for accountability;
it's essential for innovation."**

David Bornstein, "The Dawn of the Evidence-Based Budget"

Duflo's recipe for fixing poverty with policy

Easy!

Understand health, education, savings, labor markets, institutions, incentives, and politics



Duflo vs. institutional nihilism

Yes, institutions are powerful and path dependency is a thing

But there's room for substantial changes and improvements

Economic policies rooted in evidence **can** change lives and politics



For this to work, you *have* to understand economic principles

The Federal Reserve Explained in 3 Minutes

740,052 views

5K 650



Joshua Owens

Published on Feb 21, 2013

See More Videos Here: <http://www.schoolhouseschock.com>

Money - whether its a tangible piece of paper or a number on a screen - is intrinsically worthless, yet it fuels the modern world. In America the ultimate control of money rests with the bankers of the Federal Reserve System. **Because of this it is detrimental that we as citizens understand how this shadowy - private - organization works and how it's ultimate goal is to forever enslave us in a descending pit of debt that we will never crawl out of.**

Category

Education

“Conventional economics is a form of brain damage”



<https://www.youtube.com/watch?v=2wiZoGZJN3s>

how do we do stuff
with all this knowledge

Potential ethos-destroying caveat

I am not an economist

**I'm also not a true believer in all
economic theories or models**
(or unfettered capitalism, for that matter)

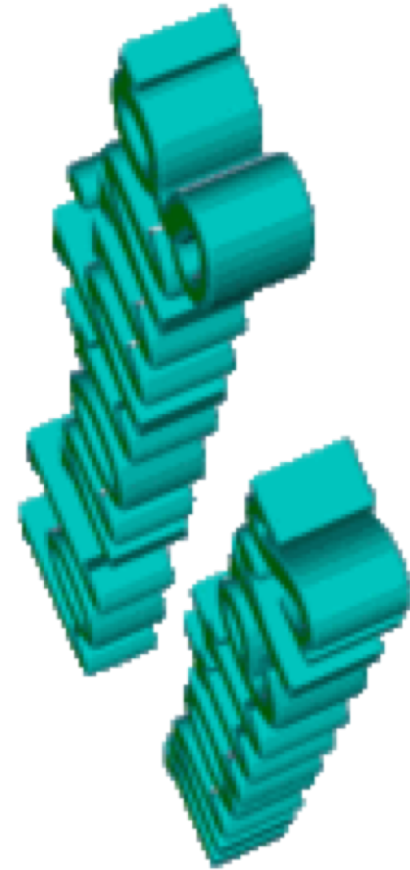
**But, economics can still be useful for
promoting good public policies and for
making good managerial decisions.**

Economic models are
overly simplified and wrong

CBA numbers are
always inaccurate

We can't measure
anything perfectly

Politics messes everything up



Don't succumb to public administration nihilism

You don't need perfect information

Muddling through is okay
(and the only way)

The Science of “Muddling Through”

By CHARLES E. LINDBLOM

*Associate Professor of Economics
Yale University*

SUPPOSE an administrator is given responsibility for formulating policy with respect to inflation. He might start by trying to list all related values in order of importance, e.g., full employment, reasonable business profit, protection of small savin

➤ Short courses, books, and articles exhort administrators to make decisions more methodically, but there has been little analysis of the decision-making process now used by public administrators. The usual process is investigated here—and generally defended against proposals for more “scientific” methods.

Decisions of individual administrators, of course, must be integrated with decisions of others to form the mosaic of public policy. This integration

Rational-comprehensive approach

Systematically analyze every decision with perfect information, unlimited time, and unlimited intellectual capacity

In 1950s/60s, PA schools taught students to **not** do this because it's impossible

But they still did

GUESS WHAT WE'RE TEACHING YOU

**Successive limited
comparisons approach**

(“muddling through”)

Empirical evidence + real world constraints

Rational approach

Good policy = most appropriate means to a specific end

No variables are omitted—if so, it's an accident and bad

Proposed changes are sudden, systemic, and perfectly evidence-based

Muddling through

Good policy = a bunch of people agree it's good enough

Variables are omitted on purpose and analysis is simplified

Proposed changes are incremental and marginal

"A wise policymaker consequently expects that his policies will achieve **only part** of what he hopes and at the same time will **produce unanticipated consequences** he would have preferred to avoid. If he proceeds through a **succession of incremental changes**, he avoids serious lasting mistakes in several ways."

Charles Lindblom, "The Science of 'Muddling Through'"

Change *must* be incremental

Institutions are sticky and hard to change

Policies generally only get passed and adopted if they're incremental

Choose something **Do it**

If it works, improve it

If it doesn't work, fix it

**If the improvement (or fix) is
good (or bad), adjust accordingly**

Keep doing all of that ↑