Welcome to the class!
I look forward to getting to know you and working with you this semester.

COURSE SYLLABUS

COURSE JUSTIFICATION
Suppose in your role as an economist you are asked to advise a food regulator on the implementation of two alternative food policies, one that bans foods that are produced using a certain production process (e.g., Genetic Modification or Genetic Use Restriction Technologies) versus a policy that requires mandatory labeling of these foods. Which policy would you recommend and what would be the economic basis for your suggestion? How would you calculate the economic gains and losses associated with each of these policies? Should the gains and losses to the different groups (e.g., consumers, producers) be given the same or different weights; should heterogeneity within the groups be taken into account? Do you need to consider the effects of these policies on food products and sectors outside those directly affected by the policies? Where should the chain of analysis end?
Welfare Economics provides the theoretical basis for evaluating different policies and the tools that help economists provide answers to the above questions.

COURSE DESCRIPTION AND OBJECTIVES
The course is an application of welfare theory to public policy issues. An overview of the development of welfare economics and its importance for applied economics will be followed by an examination of the challenges of measuring social welfare and choosing welfare criteria. The main part of the course involves examining the theory of welfare economics and the problems encountered when putting the theory to work. In this part we will examine tools that can be used to measure welfare and welfare change for consumers and producers. The last part of the course examines applied welfare economics in practice both at the applied theory and empirical level. Specifically, we will examine how to use economic welfare theory for policy analysis and to assess policy decisions in various areas of economics such as food production, the economics of innovation, intellectual property rights, environmental and natural resources and international trade.
After completing this course you should not only know how to go about answering the questions posed in the above policy dilemma but also understand why another economist may come up with different answers to those same questions. A good understanding of Welfare Economics is critical if one wants to effectively use economics in policy-making.

**COURSE REQUIREMENTS AND GRADING PROCEDURES**

- **ATTENDANCE:** All students are expected to be present in all class sessions and actively participate in class discussions.

- **ASSIGNMENTS:** Each student will make presentations and lead discussion on assigned readings. Summaries of presentations and power points should be uploaded by students on Canvas. Problem sets are designed to test your understanding of the material as well as to let you explore how economic theory tools can be applied to solving real world problems. Scores on problem sets submitted up to a day late will be reduced by 20%. Problem sets submitted more than one day late will not receive credit.

- **EXAMS:** During the course each of you will have to take one midterm and one final exam. Both exams are in-class exams.

- **GRADING:** Course grades will be determined as follows:
  
<table>
<thead>
<tr>
<th>Component</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Presentations and problem sets</td>
<td>35%</td>
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<tr>
<td>Classroom participation and evaluations</td>
<td>15%</td>
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<tr>
<td>Midterm exam</td>
<td>20%</td>
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<tr>
<td>Final exam</td>
<td>30%</td>
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**GRADING POLICY:** A=90-100, B=80-89, C=70-79, D= 60-69, F=below 60. Plus and minus grades will be given within these ranges.

**COURSE MATERIALS**

We will be using parts of the following two textbooks:


All additional readings, journal articles and book chapters, listed in the course outline below will be available on Canvas.

**COURSE OUTLINE**

1. **Introduction to Welfare Economics and Policy Analysis**
   - Chapter 1 in Just, Hueth and Schmitz, pp. 1-13.
   - Chapter 1 in Boadway and Bruce, pp. 1-27.

2. The Pareto Criterion, Pareto Optimality and Compensation

• Chapter 2 in Just, Hueth and Schmitz, pp. 14-31.
• Chapter 3 in Just, Hueth and Schmitz, pp. 32-40.
• Chapter 3 in Boadway and Bruce, pp. 61-102.

3. Measurement Criteria

3.1 Consumer surplus, WTP, consumer welfare and variation measures

• Chapter 5 in Just, Hueth and Schmitz.
• Chapter 2 in Boadway and Bruce.
• Chapter 6 in Just, Hueth and Schmitz.
• Chapter 7 in Boadway and Bruce, pp. 195-220.

3.2 Producer surplus, producer welfare and the variation measures

• Chapter 4 in Just, Hueth and Schmitz.
• Chapter 7 in Boadway and Bruce, pp.220-223.

3.3 Welfare Measurement

4. Market Failure and the Theory of Second Best

4.1 Causes of Market Failure
- Chapter 4 in Boadway and Bruce, pp.103-131.

4.2 Externalities
- Chapter 13 in Just, Hueth and Schmitz, pp. 527-549.

4.3 Public Goods and the Free Rider Problem
- Chapter 13 in Just, Hueth and Schmitz, pp. 550-560.

4.4 The General Theory of Second Best
- Chapter 4 in Boadway and Bruce pp.131-135.
5. Social Welfare Functions, Fairness Theory and Justice
   • Chapters 5 and 6 in Broadway and Bruce.

6. Future Direction in Welfare Theory

7. Welfare Economics Applications
   7.1 Welfare Effects in Vertically and Horizontally Related Markets
      • Chapter 9 in Just, Hueth and Schmitz.
   7.2 The Welfare Effects of Market Structure
      • Chapter 10 in Just, Hueth and Schmitz, sect. 10.1-6
   7.3 The Welfare Effects of Information
      • Chapter 11 in Just, Hueth and Schmitz, sect. 11.1-4.

   Trade


**Food Policy – Heterogeneity**


**Property Rights and Externalities**
