

Intermediate Microeconomics
Leah Brooks
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Policy Paper

Logistics

This assignment is due in class, on paper, December 1 – our last class. I may ask you to submit electronically as well; if so, I will provide details on that later.

The final paper should be three to five pages, double-spaced, usual MS Word margins, Times New Roman font. Cite the sources you use. Neither your bibliography nor any tables and charts count as part of the five page limit. Use the American Economic Association citation style; see http://www.chicagomanualofstyle.org/16/ch15/ch15_sec009.html?sessionId=e1c3dcbf-d631-4ad9-a32f-682f6a2578e3

Do not plagiarize. If you are using more than three words from another source, become immediately very very nervous. If you are confused about what plagiarism is, please come see me. Do not experiment with your assignment.

I am very happy to discuss potential ideas during office hours. Email is not well-suited to offering detailed feedback on this project. If you absolutely can't make office hours, in person or by phone, email me to set up a meeting at another time. Please do not ask me to read any drafts. But feel free to ask your classmates to read drafts!

If you would like to me to set up anything on Blackboard that would facilitate your working with your classmates, please let me know.

Content

Your goal in this memo is to choose a proposed (proposed, not implemented!) policy of interest and estimate its anticipated effect on either P or Q, using the tools we've learned in class. To do this successfully, you'll need a policy that attempts to modify either P or Q.

In other classes you may learn estimation techniques to study the direct impact of a policy change. For example, how does the introduction of free clinic visits impact health? This is not the goal of this memo.

Your goal in this memo is to use some of what we've studied in class to give an estimate of the effects of a policy on P or Q. Your key final output is a number of set of numbers that tell us about the magnitude of the change in P or Q.

For example, suppose there is proposed policy that offers greater subsidies for student loans. Policymakers would like to know how much this policy will cost the government. A naive policymaker would anticipate that the cost of this policy is the direct increased expenditure on

loans for the current population of loan-takers. However, as we learn in this class, changing the subsidy for loans is equivalent to changing the price of loans. How do we expect participants in the market to respond to this change in price? What concepts have we learned to think about how a change in price changes the amount consumed? What would this mean for the cost of the program to the government?

Here we have an example where we know the original equilibrium – the number of loans and the price of loans – and we also know the new price. What is the new Q? To get to the new Q, we need an estimate of the price elasticity of demand for student loans.

To do this calculation, you must consult the economics literature for the most relevant elasticity. I encourage you to estimate outcomes given a range of elasticities. Suppose there are a variety of estimates in the literature. You can “bound” your estimates by using the highest and lowest estimates of the elasticity.

Finding Estimated Elasticities

Your best bet for finding elasticity estimates is a database called EconLit. Google “gwu library econlit” to follow the link, or follow the first link under databases from <http://libguides.gwu.edu/c.php?g=258714&p=1728089> You’ll need to be in GW’s network, either on campus or via VPN, to use this database.

You may not be able to find an elasticity for your specific market. If you cannot, find the market you think is the closest.

Organization

Your paper should have an introduction that briefly introduces the policy at issue and summarizes your results. You should then have slightly more background on the policy (but no more than we need to understand your estimates), then an explanation of how you’ll calculate the change in Q or P, followed by an explanation of your calculations. Are there unintended effects of this policy? Conclude with a brief summary.

If you think it will be helpful for your narrative, please include tables and figures. It is difficult to imagine a successful paper that has no tables and no figures.