

**Economics 354**  
**The Economics of Public Regulation**  
**Fall 1997**

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*Office Hours:* Tuesday/Thursday 3:00-4:30

*Text:* Viscusi, W. Kip, John Vernon, and Joseph Harrington. Economics of Regulation and Antitrust. Cambridge, MA: The MIT Press, 1995.

Economics 354 Readings CoursePack available in Bookstore.

You quickly will realize that even very recently conceived regulatory policies have a short shelf life. Conceptual and procedural innovations occur with regularity. Regulation magazine (call number K18.E6) is an excellent source of current information. The typical article is 6-9 pages in length.

*Course Calendar:*

Topic   Date

I.	Introduction	Sept 2
II.	Normative and Positive Theories of Regulation	Sept 4
III.	Theory of Natural Monopoly	Sept 9-11
IV.	Alternative Forms of Economic Regulation	
	(a) Rate-of-Return (including Peak-Load Pricing)	Sept 16-25
	(b) Price-Cap	Sept 30
V.	Franchise Bidding	
	(a) Theory	Oct 2
	(b) Cable TV	Oct 7
MIDTERM EXAMINATION		Oct 9
VI.	Deregulating Natural Monopoly	
	(a) Theory	Oct 14
	(b) Telecommunications	Oct 16
	(c) Electric Utilities	Oct 21
VII.	Regulation of Potentially Competitive Industries	
	(a) Theory	Oct 23-28
	(b) Surface Transportation	Oct 30
	(c) Airlines	Nov 4
VIII.	Risk Regulation	
	(a) The Environment	Nov 6-Nov 13
	(b) Occupational Safety and Health	Nov 18
PAPERS DUE		Nov 18
IX.	Student Papers (5 days)--Applications of Economic Principles in Various Regulatory Settings	Nov 20-Dec 9
FINAL EXAM		Friday, Dec 12, 12:30 pm

*Course Syllabus:*

## I. INTRODUCTION

Text. Chapters 1 and 2 (through p. 38)

## II. NORMATIVE AND POSITIVE THEORIES OF REGULATION

Text. Chapter 10.

## III. THEORY OF NATURAL MONOPOLY

Text. Chapter 11 (Sept 9 pp. 351-62; Sept 11, pp. 362-72).

Demsetz, Harold, "Why Regulate Utilities," Journal of Law and Economics, 11 (February 1968), pp. 55-65.

## IV. ALTERNATIVE FORMS OF ECONOMIC REGULATION

## (a) RATE-OF-RETURN (INCLUDING PEAK-LOAD PRICING)

Text. Chapter 12 (Sept 16, pp. 377-86, 391-96; Sept 18, pp. 386-91; Sept 23-25, pp. 396-407).

Averch, H. and L. Johnson. "Behavior of the Firm Under Regulatory Constraint," American Economic Review (December 1962), pp. 1052-54 (top), 1059-68.

Gollop, Frank and Stephen Karlson, "The Impact of the Fuel Adjustment Mechanism on Economic Efficiency," Review of Economics and Statistics, 60 (November 1978), pp. 574-75, 583-84.

Caves, Douglas and Laurits Christensen, "Time-of-Use Rates for Residential Electric Service: Results from the Wisconsin Experiment," Public Utilities Fortnightly (March 17, 1983), pp. 30-35.

## (b) PRICE-CAP

Text. Chapter 12, pp. 386-87.

Stelzer, Irwin M., "Regulating Telecommunications in Britain: A New Alternative to the U.S. Approach," Telematics, III, Number 9 (September 1986), pp. 7-11.

## V. FRANCHISE BIDDING

## (a) THEORY

Text. Chapter 13 (pp. 413-29)

## (b) CABLE TV

Text. Chapter 13 (pp. 429-48)

## VI. DEREGULATING NATURAL MONOPOLY

### (a) THEORY

Text. Chapter 15. (pp. 475-86)

### (b) TELECOMMUNICATIONS

Text. Chapter 15. (pp. 486-514)

Crandall, Robert W., "Relaxing the Regulatory Stanglehold on Communications," Regulation (Summer 1992), pp. 26-35.

### (c) ELECTRIC UTILITIES

Stelzer, Irwin M., "Electric Utilities - Next Stop for Deregulators," Regulation (July/Aug 1982), pp. 29-35.

Smith, Vernon, L., "Currents of Competition in Electricity Markets," Regulation, Number 2 (1987), pp. 23-29.

## VII. REGULATION OF POTENTIALLY COMPETITIVE INDUSTRIES

### (a) THEORY

Text. Chapter 16.

### (b) SURFACE TRANSPORTATION

Text. Chapter 17 (pp.551-74).

Caves, D.W., L.R. Christensen, and J.A. Swanson, "The High Cost of Regulating U.S. Railroads," Regulation (Jan/Feb 1981), pp. 41-46.

Barnekov, C., "The Track Record," Regulation, Number 1 (1987), pp. 19-27.

Taylor, John C., "Regulation of Trucking by the States," Regulation, Number 2 (1994), pp. 37-47.

Moore, Thomas Gale, "Unfinished Business in Motor Carrier Deregulation," Regulation (Summer 1991), pp. 49-57.

### (c) AIRLINES

Text. Chapter 17 (pp. 574-97).

Kahn, Alfred, "I Would Do It Again," Regulation, No. 2 (1988), pp. 22-28.

Bailey, Elizabeth, "Airline Deregulation," Regulation (Summer 1992), pp. 18-25.

\_\_\_\_\_ and Dong Liu, "Airline Consolidation and Consumer Welfare," Eastern Economic Journal (Fall 1995), pp.463-76.

McKenzie, Richard B., "Making Sense of the Airline Safety Debate," Regulation (Summer 1991), pp. 76-84.

Moses, Leon and Ian Savage, "Aviation Deregulation and Safety," Journal of Transport Economics and Policy (May 1990), pp. 171-88.

## VIII. RISK REGULATION

### (a) THE ENVIRONMENT

Text. Chapter 21.

Kellogg, Michael, "After Environmentalism," Regulation, Number 1 (1994), pp. 25-34.

Maloney, M.T. and Bruce Yandle, "Cleaner Air at Lower Cost: Bubbles and Efficiency," Regulation (May/June 1980), pp. 49-52.

Noll, Roger, "Implementing Marketable Emissions Permits," American Economic Review (May 1982), pp. 120-24.

Gollop, Frank and Mark Roberts, "Cost-Minimizing Regulation of Sulfur Emissions: Regional Gains in Electric Power," Review of Economics and Statistics (February 1985).

### (b) OCCUPATIONAL SAFETY AND HEALTH

Text. Chapter 23.

Miller, James and Thomas Walton, "Protecting Workers Hearing: An Economic Test for OSHA Incentives," Regulation (Sept/Oct 1980), pp. 31-37.

## IX. STUDENT PAPERS (5 DAYS) --APPLICATIONS OF ECONOMIC PRINCIPLES IN VARIOUS REGULATORY SETTINGS