

Economics 354
The Economics of Public Regulation
Spring 1996

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Text: Viscusi, W. Kip, John Vernon, and Joseph Harrington. Economics of Regulation and Antitrust. Lexington, MA: D.C. Heath, 1992.

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:

<u>Topic</u>	<u>Date</u>
I. Introduction	Jan 16
II. Normative and Positive Theories of Regulation	Jan 18
III. Theory of Natural Monopoly	Jan 23-25
IV. Alternative Forms of Economic Regulation	
(a) Rate-of-Return (including Peak-Load Pricing)	Jan 30-Feb 8
(b) Price-Cap	Feb 13
V. Franchise Bidding	
(a) Theory	Feb 15
(b) Cable TV	Feb 20
MIDTERM EXAMINATION	Feb 22
VI. Deregulating Natural Monopoly	
(a) Theory	Feb 27
(b) Telecommunications	Feb 29
(c) Electric Utilities	Mar 12
VII. Regulation of Potentially Competitive Industries	
(a) Theory	Mar 14-19
(b) Surface Transportation	Mar 21
(c) Airlines	Mar 26
VIII. Risk Regulation	
(a) The Environment	Mar 28-Apr 9
(b) Occupational Safety and Health	Apr 11
PAPERS DUE	Apr 11
IX. Student Papers (5 days)--Applications of Economic Principles in Various Regulatory Settings	Apr 16-30

Course Syllabus:

I. INTRODUCTION

Text. Chapters 1 and 2 (through p. 33)

II. NORMATIVE AND POSITIVE THEORIES OF REGULATION

Text. Chapter 10.

III. THEORY OF NATURAL MONOPOLY

Text. Chapter 11 (Jan 23, pp. 330-40; Jan 25, pp. 340-49).

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 (Jan 30, pp. 355-63, 368-72; Feb 1, pp. 364-68; Feb 6-8, pp. 372-80).

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. 363-64.

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. 384-99)

(b) CABLE TV

Text. Chapter 13 (pp. 399-416)

VI. DEREGULATING NATURAL MONOPOLY

(a) THEORY

Text. Chapter 15. (pp. 443-56)

(b) TELECOMMUNICATIONS

Text. Chapter 15. (pp. 456-72)

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.507-26).

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. 526-47).

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 22.

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

IX. STUDENT PAPERS (4 DAYS) --APPLICATIONS OF ECONOMIC PRINCIPLES IN VARIOUS REGULATORY SETTINGS