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Spring 2012

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Office Hours: Weds. 2-3:30pm

ECONOMICS 230
ECONOMICS OF REGULATION SEMINAR
MWF 9:35am-10:25am
Lafayette L408

OBJECTIVES

In this course we will examine the role of government in regulating economic activity. Our objective is to gain an understanding of the origins and effects of economic regulation. The course will start with a discussion of the various hypotheses that have been advanced to explain why governments regulate firms and markets. We will then proceed to analyze a variety of historical and contemporary examples that examine the political economy of particular regulations and the effects of these regulations on economic outcomes. Throughout this course we will ask the following three questions: (1) Why did regulation arise? (2) What impact did regulation have on economic efficiency? (3) Who gained and who lost as a result of regulation?

COURSE REQUIREMENTS

Your evaluation in the course will be based on (i) classroom participation; (ii) the in-class presentation of an article from the reading list; (iii) two short summaries of two different papers from the reading list; (iv) an in-class midterm exam, (v) a term paper, and (vi) a final exam. **Since this is an advanced seminar course, I expect you to do the required readings before class and to be prepared to discuss each reading in class. If I do not believe that your participation has been adequate, I will not hesitate to assign you a grade of 0 percent for participation.** For the in-class presentation, you will summarize and critique one of the papers from the reading list. For the term paper, you will write an essay analyzing two scholarly papers on a particular type of regulation. The two papers will not have been discussed in class. A list of possible papers and topics will be made available within the first month of classes.

The weighting of the course requirements will be as follows:

(i) In-class participation	20 percent
(ii) Paper presentation	10 percent
(iii) Two short summaries	20 percent (10 percent each)
(iv) In-class midterm exam	20 percent
(v) Term paper	10 percent
(vi) Final exam	20 percent

KEY DATES

Midterm	Monday, February 27 th , 2012
Term paper	Monday, April 30 th , 2012
Final exam	Tuesday, May 8 th , 2012 at 1:30pm

No excuses will be accepted for late term papers or for missing the midterm or final without a note from your doctor or the Dean's office.

Your letter grade will be determined according to the following schedule:

<i>Percentage</i>	<i>Letter Grade</i>
97-100%	A+
94-96%	A
90-93%	A-
85-89%	B+
80-84%	B
75-79%	B-
70-74%	C+
65-69%	C
60-64%	C-
50-59%	D
Below 50 %	F

Within the first four or five weeks of class we will set up a schedule for paper presentations and I will provide more information about what will be required for the term paper. You should feel free to talk with me about any of the course materials, your in-class presentation, or your term paper topics during my office hours.

READING LIST

Note: We will not be covering all of the readings on this list. Those readings with an asterisk (*) are those we will most likely be discussing in detail (although this will be subject to change). As we progress through the syllabus we will determine which readings will be required. Different readings may be added, depending on time constraints and class interests. The readings will be made available online. I will periodically email you a link to each reading.

Part I: Theoretical issues

1. Public interest rationale for regulation: regulation as the solution to market failure

- *Grier, Douglas (1993). "The Market: Ideal and Real." Chapter 2 of *Business, Government, and Society*. New York: Macmillan Press, pp. 15-33.
- *Breyer, Stephen (1980). "Typical Justifications for Regulation." Chapter 1 of *Regulation and Its Reform*. Cambridge, MA: Harvard University Press, pp. 15-35.
- Stigler, George (1975). "The Economist's Traditional Theory of the Economic Functions of the State." Chapter 7 of *The Citizen and the State*, Chicago: University of Chicago Press, pp. 103-141.

2. A discussion of the economics of collective choice and the pitfalls of politics

- *Stevens, Joe B. (1993). "Direct (Participatory) Government." Chapter 6 of *The Economics of Collective Choice*. Boulder, CO: Westview Press, pp. 133-211.
- Feldman, Alan (1980). *Welfare Economics and Social Choice Theory*. Amsterdam: Kluwer Publishing.

3. Interest group theories of regulation

- *Mitchell, William and Michael Munger (1991). "Economic Models of Interest Groups: An Introductory Survey." *American Journal of Political Science*, 35: 512-546.
- *Stigler, George (1971). "The Economic Theory of Regulation." *Bell Journal of Economics and Management Science*, 2: 3-21.
- Stevens, Joe B. (1993). "Legislative Government: Part II" (chapter 8) of the *Economics of Collective Choice*. Boulder, CO: Westview Press.
- Peltzman, Sam (1976). "Toward A More General Theory of Regulation." *Journal of Law and Economics*, 19: 211-40.
- Becker, Gary (1983). "A Theory of Competition among Pressure Groups for Political Influence." *Quarterly Journal of Economics*, 98: 371-400.

- Wittman, Donald (1989). “Why Democracies Produce Efficient Results.” *Journal of Political Economy* 97: 1395-1424.
- McChesney, Fred (1987). “Rent Extraction and Rent Creation in the Economic Theory of Regulation.” *Journal of Legal Studies*, 16: 101-118.

4. Is regulation necessary or does it even work properly? Some skeptical responses

- Coase, Ronald (1960). “The Problem of Social Cost.” *Journal of Law and Economics*, 3: 1-44. Reprinted as chapter 4 of Ronald Coase (1988). *The Firm, the Market, and the Law*. Chicago: University of Chicago Press, pp. 95-156.
- Demsetz, Harold (1968). “Why Regulate Utilities?” *Journal of Law and Economics* 11: 55-65.
- Klein, Benjamin and Keith Leffler (1981). “The Role of Market Forces in Assuring Contractual Performance.” *Journal of Political Economy*, 89: 615-641.
- *Stigler, George and Claire Friedland (1962). “What Can Regulators Regulate?: The Case of Electricity.” *Journal of Law and Economics* 5: 1-16. Reprinted in George Stigler (1975). *The Citizen and the State*. Chicago: University of Chicago Press, pp. 61-75.

5. Can there be a simple theory of regulation? The case of the US sugar program

- *Kreuger, Anne (1990). “The Political Economy of Controls: American Sugar.” Reprinted in Alston, Lee, Thrainn Eggertsson and Douglass North (1996). *Empirical Studies in Institutional Change*. Cambridge: Cambridge University Press, pp. 169-218.

Part II: Empirical papers on regulation

1. General papers on regulation from a cross-country/cross-state perspective

- *Djankov, Simeon, Raphael La Porta, Andres Lopes-de-Silanes, and Andrei Shleifer (2002). “The Regulation of Entry.” *Quarterly Journal of Economics* 117 (1): 1-37.
- *Mulligan, Casey and Andrei Shleifer (2005). “The Extent of the Market and the Supply of Regulation.” *Quarterly Journal of Economics* 120 (4): 1445-1473.
- *Botero, Juan C., Simeon Djankov, Raphael La Porta, Florencio Lopes-de-Silanes, and Andrei Shleifer (2004). “The Regulation of Labor.” *Quarterly Journal of Economics* 119 (4): 1339-1382.

2. The genesis of the federal regulatory state in America

- *Gilligan, Thomas, William Marshall and Barry Weingast (1989). "Regulation and the Theory of Legislative Choice: The Interstate Commerce Act of 1887." *Journal of Law and Economics* 32: 35-62.
- *Libecap, Gary (1992) "The Rise of the Chicago Packers and the Origins of Meat Inspection and Antitrust." *Economic Inquiry* 30: 242-62.
- *Knittel, Christopher (2006). "The Adoption of Electricity Regulation: The Role of Interest Groups." *Journal of Industrial Economics*
- Glaeser, Edward and Andrei Schleifer (2003). "The Rise of the Regulatory State." *Journal of Economic Literature* 41: 401-25.

3. The effects of antitrust regulation

- Delorme, Charles D. Jr., W. Scott Frame and David Kamerschen (1997). "Empirical Evidence on a Special-Interest-Group Perspective to Antitrust." *Public Choice*, 92: 317-335.
- Bittlingmayer, George (1996). "Antitrust and Business Activity: The First Quarter Century." *Business History Review*, 70: 363-401.
- Bittlingmayer, George (1985). "Did Antitrust Policy Cause the Great Merger Wave?" *Journal of Law and Economics*, 28: 77-118.
- *Bittlingmayer, George (1993). "The Stock Market and Early Antitrust Enforcement." *Journal of Law and Economics* 36: 1-32.
- *Ross, Thomas (1984). "Winners and Losers under the Robinson-Patman Act." *Journal of Law and Economics*.
- *Sproul, Michael F. (1993). "Antitrust and Prices." *Journal of Political Economy* 101 (4): 741-51.

3. Environmental regulation

- Breyer, Stephen (1980). "Partial Mismatch: Spillovers and Environmental Protection." Chapter 14 of *Regulation and Its Reform*.
- *Pashigian, Peter (1985). "Environmental Protection: Whose Self-Interests Are Being Protected?" *Economic Inquiry* 23: 551-84.
- *Becker, Randy and Vernon Henderson (2000). "Effects of Air Quality Regulation on Polluting Industries." *Journal of Political Economy* 108: 379-421.
- Evan J. Ringquist (1993). "Does Regulation Matter? Evaluating the Effects of State Air Pollution Control Programs." *Journal of Politics* 55 (4): 1022-45.
- *Chay, Kenneth and Michael Greenstone (2003). "Air Quality, Infant Mortality, and the Clean Air Act of 1970." NBER Working Paper No. 10053.
- Joskow, Paul and Richard Schmalensee (1998). "The Political Economy of Market-Based Environmental Policy: The US Acid Rain Program." *Journal of Law and Economics* 41: 37-88.

- Gupta, Shreekant, George van Houtven, and Maureen Cropper (1996). "Paying for Permanence: An Economic Analysis of EPA's Cleanup Decisions at Superfund Sites." *RAND Journal of Economics* 27(3): 563-82.

4. Worker compensation and safety regulations: origins and impacts

- *Fishback, Price and Shawn Kantor (1998). "The Adoption of Workers' Compensation in the United States." *Journal of Law and Economics* 41: 305-341.
- *Viscusi, Kip (1979). "The Impact of Occupational Health and Safety Regulation." *Bell Journal of Economics* 10: 117-40.
- Bartels, Anne and Lacy Glenn Thomas (1987). "Predation through Regulation: The Wage and Profit Effects of the Occupational Safety and Health Administration and the Environmental Protection Agency." *Journal of Law and Economics* 30: 239-264.
- Peltzman, Sam (1987). "The Health Effects of Mandatory Prescriptions." *Journal of Law and Economics* 30: 207-238.
- Peltzman, Sam (1975). "The Effects of Automobile Safety Regulation." *Journal of Political Economy* 83: 677-725.
- *Sen, Anindya (2001). "An Empirical Test of the Offset Hypothesis." *Journal of Law and Economics* 44: 481-510.

5. Food and drug regulation: causes and consequences

- Dupré, Ruth (1999). "If It's Yellow It Must Be Butter: Margarine Regulation in North America Since 1886." *Journal of Economic History* 59: 357-71.
- Law, Marc (2003). "The Origins of State Pure Food Regulation." *Journal of Economic History*, 63: 1103-1130.
- Law, Marc and Gary Libecap (2006). "The Determinants of Progressive Era Reform: The Pure Food and Drug Act of 1906." In Goldin, Claudia and Edward Glaeser (eds.). *Corruption and Reform: Lessons from America's History*. Chicago: University of Chicago Press.
- Carpenter, Daniel (2002). "Crisis and the Emergence of Economic Regulation: The Food, Drug and Cosmetics Act of 1938." Mimeo.
- Peltzman, Sam (1973). "An Evaluation of Consumer Protection Legislation: The 1962 Drug Amendments." *Journal of Political Economy* 81: 1049-1091.
- *Grabowski, Henry, John Vernon and Lacy Glenn Thomas (1978). "Estimating the Effects of Regulation on Innovation: An International Comparative Analysis of the Pharmaceutical Industry." *Journal of Law and Economics* 21: 133-163.
- *Olson, Mary (1997). "Firms' Influences on FDA Drug Approval." *Journal of Economics and Management Strategy* 6: 377-401.
- Carpenter, Daniel P. (2002). "Groups, the Media, Agency Waiting Costs, and FDA Drug Approval." *American Journal of Political Science* 45: 490-505.
- *Olson, Mary (2002). "Pharmaceutical Policy Change and the Safety of New Drugs." *Journal of Law and Economics* 45: 615-42.

- Olson, Mary (2004). “Are Novel Drugs More Risky for Patients than Less Novel Drugs?” *Journal of Health Economics* 23: 1135-1158.
- Carpenter, Daniel P. and Marc Turenne (2000). “Why Do Bigger Firms Receive Faster Drug Approvals?” Unpublished Manuscript.

6. Occupational licensing regulation

- Law, Marc and Sukkoo Kim (2005). “Specialization and Regulation: The Rise of ‘Professionals’ and the Emergence of Occupational Licensing Regulation in America.” *Journal of Economic History* 65 (3): 723-56.
- *Kleiner, Morris and Robert Kudrle (2000). “Does Regulation Affect Economic Outcomes: The Case of Dentistry.” *Journal of Law and Economics* 43: 547-82.
- Law, Marc and Mindy Marks (2009). “The Effects of Occupational Licensing Laws on Minorities: Evidence from the Progressive Era.” *Journal of Law and Economics*.

7. Regulation of advertising

- Benham, Lee (1972). “The Effects of Advertising on the Price of Eyeglasses.” *Journal of Law and Economics* 15: 337-52.
- *Milyo, Jeffrey and Joel Waldfogel (1999). “The Effects of Price Advertising on Prices: Evidence in the Wake of 44 Liquormart.” *American Economic Review* 89 (5): 1081-96.
- Hansen, Zeynep and Marc T. Law (2008). “The Political Economy of Truth-in-Advertising Regulation during the Progressive Era.” *Journal of Law and Economics* 51(2): 251-69.

8. Understanding the people who enforce regulation: the bureaucracy

- *Johnson, Ronald and Gary Libecap (1994). “Patronage to Merit and Control of the Federal Government Labor Force.” *Explorations in Economic History* 31: 91-119.
- *McCubbins, Mathew, Roger Noll and Barry Weingast (1987). “Administrative Procedures as Instruments of Political Control.” *Journal of Law, Economics and Organization* 3: 243-277.
- *Weingast, Barry and Mark Moran (1983). “Bureaucratic Discretion or Congressional Control? Regulatory Policymaking by the Federal Trade Commission.” *Journal of Political Economy* 91: 765-800.
- Carpenter, Daniel P. (2001). *The Forging of Bureaucratic Autonomy: Reputations, Networks, and Policy Innovation in Executive Agencies, 1862-1928*. Princeton: Princeton University Press.
- *Miller, Gary (2000). “Above Politics: Credible Commitment and Efficiency in the Design of Public Agencies.” *Journal of Public Administration Research and Theory* 10: 289-327.

- Law, Marc (2006). “How Do Regulators Regulate? Enforcement of the Pure Food and Drug Act, 1907-38.” *Journal of Law, Economics, and Organization* 22 (2): 459-89.

9. Why regulation sticks: the transaction costs of forming and altering political coalitions

- *Johnson, Ronald and Gary Libecap (2003). “Transaction Costs and Coalition Stability under Majority Rule.” *Economic Inquiry* 41: 193-207.
- *Johnson, Ronald, and Gary Libecap (2001). “Information Distortion and Competitive Remedies in Government Transfer Programs: The Case of Ethanol.” *Economics of Governance* 2: 101-134.
- Shepsle, Kenneth and Barry Weingast (1981). “Structure Induced Equilibrium and Legislative Choice.” *Public Choice* 37: 503-519.