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ECONOMICS 230
SEMINAR ON THE POLITICAL ECONOMY OF REGULATION
MWF 10:40-11:30am
Old Mill 221

OBJECTIVES

In this course we will examine the role of government regulation of economic activity. Our objective is to gain an understanding of the origins and effects of 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 case studies of the causes and consequences of specific regulations. Throughout this course we will ask the following questions: (1) Why does regulation arise? (2) What impact does regulation have on economic outcomes? (3) Who gains and who loses as a result of regulation?

COURSE REQUIREMENTS

Your evaluation in the course will be based on (i) classroom participation, (ii) the oral presentation of an article of your choosing from the reading list, (iii) a written summary of a different article on the reading list, (iv) a term paper, and (v) 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 paper summary, you will write a three-page summary of a different paper, also from the reading list. Finally, for the term paper, you will write a 10-page essay analyzing some regulation (or aspect of regulation) that has not been discussed in class.

GRADING

The weighting of the course requirements (along with key dates) are as follows:

(i) In-class participation	20 percent	Throughout the semester
(ii) Paper presentation (oral)	20 percent	TBA
(iii) Paper summary (written)	10 percent	TBA
(iv) Term paper	20 percent	Friday, December 4th
(v) Midterm exam	30 percent	Wednesday, October 14th

A schedule for in-class presentations will be determined within the first month of class. Your written summary of a paper will be due on the same day as the in-class presentation of the same paper. Please note that the paper that you present and the paper you summarize will be different. This will compel you to read carefully two different papers on the reading list.

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

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

<i>Percentage</i>	<i>Letter Grade</i>
95-100%	A+
90-94%	A
85-89%	A-
80-84%	B+
75-79%	B
70-74%	B-
65-69%	C+
60-64%	C
55-59%	C-
50-54%	D
Below 50 %	F

I do not give out extra credit. Accordingly DO NOT ask me for extra credit. Your request will be refused.

CONTACTING ME

The best ways to reach me are by email, during my office hours, or immediately after class. My contact information and office hours are on the first page of this syllabus. If you need to speak to me in person but cannot attend my office hours, contact me to set up an appointment.

When composing an email to me (or, for that matter, any faculty member), keep the following points in mind:

1. Email messages are different than text messages. You are not being charged per character in an email message. Therefore you should be sure to write in proper sentences and paragraphs. Failure to do so is sloppy and impolite.
2. Make sure your message has a clearly articulated question. If I cannot understand your message, I will not respond.

Please note that my primary means of communicating with you outside of class will be by email or via the course website. Please be sure to check your UVM email account regularly. The readings for this course will be made available on the course website. The URL for the course website is as follows:

<http://www.uvm.edu/~mlaw/ec230.html>

I strongly urge you to bookmark this address in your web browser.

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 through the course website.

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.
- *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 W. (1984). “Winners and Losers under the Robinson-Patman Act.” *Journal of Law and Economics* 27: 243-71.

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, Shreekanth, 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*, Forthcoming.

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.