DISCUSSION QUESTIONS AND ANSWER SKETCHES

Each chapter of *Policy Analysis: Concepts and Practice, 5th Edition*, ends with discussion questions. The questions are provided as a basis for homework assignments or class discussion. These pages provide answer sketches to assist instructors in their use.

Chapter 1

1. Think back to the research papers you have written for undergraduate courses. In what ways are your papers similar in content and structure to the sample policy analysis of the BC salmon fishery? In what ways do your papers differ?

   Likely similarities:

   1. Research papers and the policy analysis both generally draw on scholarly literatures or empirical evidence to support arguments.

   2. Each answers a specific question, most likely addressing an intellectual question in the case of a research paper and a policy question in the case of the policy analysis.

   3. Each has a logical structure from an introduction to a conclusion.

   4. Each documents its sources to give intellectual credit and establish credibility.

   Likely differences:

   1. Whereas research papers are generally written to a general audience of scholars, the policy analysis was written to a specific client.

   2. Whereas research papers often take values as implicit, the policy analysis makes an explicit argument for consideration of specific values (goals and criteria).

   3. Whereas research papers often take an historical perspective, either for its own sake or to illustrate or to test some theory, the policy analysis looks back only to help it look forward: What does experience suggest about the likely impacts of policy alternatives in the future?

   4. Whereas research papers usually start with a general introduction that introduces, but does not immediately answer, the question being addressed, the policy analysis begins with an executive summary that gives both the question and the answer (policy recommendation).

   5. Whereas research papers often focus on some aspect of a question, the policy analysis seeks to be comprehensive in the sense of considering the impacts of all the policy...
alternatives in terms of all the specified goals and criteria.

6. Whereas research papers provide considerable artistic license, the policy analysis is written in a direct and concise style.

2. Now think about articles you have read in scholarly journals. How does the sample policy analysis differ in content and structure from published academic research?

Many of the comparisons between student research papers and the policy analysis also apply to the comparison between scholarly articles and the policy analysis. A few specific comparisons follow.

Some differences are worth noting:

1. Whereas scholarly articles seek to provide a methodologically conscious answer to a specific, often narrow, question, the policy analysis makes comprehensive predictions using whatever evidence is available.

2. Whereas scholarly articles usually review all related scholarship, the policy analysis draws only on prior work relevant to assessing the problem and predicting the consequences of alternative policies.

3. Whereas scholarly articles are generally “finished” in the sense that they can be held back until the author (and referees) see it as complete, the policy analysis represents the best that can be done under the deadlines of time and resources.

Chapter 2

1. The Legislative Analyst’s Office, which functions as the “eyes and ears” of the California Legislature, was founded in 1941. It served as a model for the Congressional Budget Office. Visit its web page (www.lao.ca.gov) to view its history and samples of its products. Would you expect the analysis produced by the Legislative Analyst’s Office to be more or less politically neutral than analytical offices within the California executive branch?

Executive agencies face strong pressure to support the administration's policy. Legislative settings appear to provide a greater possibility for institutionalizing neutral and balanced policy analysis. Legislatures generally operate at an informational disadvantage relative to executive agencies, providing a motivation for creating analytical offices. Anticipating that different parties will command majorities in the legislature at different times, those who lead the analytical offices have strong incentives to be neutral and balanced, and to be perceived as neutral and balanced. As Elizabeth Hill, the California Legislative Analyst, notes: “The viability of the office is dependent on its ability to provide independent analyses based on reliable information on an ongoing basis” (Personal communication, cited in David L. Weimer, “Enriching Public Discourse: Policy Analysis in Representative Democracies,” The Good Society 11(1) 2002, 61-
65.) The office she heads has existed since 1941, surviving many changes in legislative control. It also served as the model for the Congressional Budget Office, which has played a similar role at the Federal level since 1975, and many state-level analytical offices.

2. “Think tanks” differ in a variety of ways, including their areas of specialization and the degree to which they advocate specific policies. Characterize the following “think thanks” after visiting their web pages: Cato Institute (www.cato.org), Fraser Institute (www.fraserinstitute.ca), Progressive Policy Institute (www.ppion.org), RAND Corporation (www.rand.org), and Resources for the Future (www.rff.org).

The Cato Institute has a libertarian orientation, as does the Fraser Institute (Canada). Both speak to particular policy issues as well as conduct policy research. The Progressive Policy Institute seeks to promote a “third way” of modern progressive policies. RAND does considerable policy analysis by contract as well as policy research, including overseeing major social experiments such as the RAND Health Insurance Study. Resources for the Future emphasizes policy research in the environmental policy area.

As a follow-up exercise, students could be asked to search for an issue addressed by both the Cato Institute and the Progressive Policy Institute to make comparisons. Students could also be directed to visit the web sites for other "think thanks" such a the Brookings Institution, the American Enterprise Institute, the Heritage Foundation, and the Worldwatch Institute.

Chapter 3

1. Imagine that you are an analyst working as a budget analyst for your state’s department of education. You have made what you believe to be a fairly accurate prediction of the cost of a statewide class-size reduction program for elementary schools. You just discovered that your supervisor is planning to testify before a committee of the Assembly that the cost would be less than half of the cost you predicted. What factors would you consider in deciding on an ethical course of action?

You would probably want to consider the following:

Does your supervisor know that her planned testimony is in conflict with your analysis? If not, then your first ethical responsibility would be to inform her about the discrepancy.

Does your supervisor have some other basis for making her prediction? Perhaps she is assessing your prediction against that of another analyst who she trusts more. If this is the case, then you may not have an ethical problem, but rather a problem with your role in the agency.

If she understands that her planned testimony is in conflict with your analysis, and she has no alternative source of information to support her position, then you may want to consider the likely consequences of her testimony in assessing your ethical responsibility. If the testimony is certain to be countered at the hearing by other witnesses, so that its consequences are likely to be
small, than you may be ethically satisfied by exercising protest within your agency. If her testimony is likely to be influential, leading to the adoption of a program that the legislature would not have adopted if it had a realistic cost estimate, then you may want to consider backing up your protest with the threat of exit, or even possibly a disloyal public statement. Before the latter, however, you should be very certain that your supervisor’s testimony is grossly incorrect and likely to have substantial negative consequences.

2. Imagine that you are an analyst in a public agency. Think of a scenario in which you would feel compelled to resign. Avoid extreme scenarios; instead, think about a situation that would just push you over the edge.


Take a few minutes to think of a scenario that would lead you to resign from a government position. Specify the government position, and the issue that would provoke your resignation.

After having students present their scenarios to the class, he recommends selecting two students who have presented particularly clear scenarios. He then asks the rest of the class “to imagine that they are colleagues, friends, or family of the two, and wish to talk them out of resigning” (p. 313). He reports that this discussion drives home both the personal costs of resigning and the allure of the “effectiveness trap,” the argument that if you resign on this issue you will not be available to affect other issues in the future.

**Chapter 4**

1. Assume that the world market for crude oil is competitive with an upward sloping supply schedule and a downward sloping demand schedule. Draw a diagram that shows the equilibrium price and quantity. Now imagine that one of the major oil exporting countries undergoes a revolution that shuts down its oil fields. Draw a new supply schedule and show the loss in consumer surplus in the world oil market resulting from the loss of supply. What assumptions are you making about the demand for crude oil in your measurement of consumer surplus?

The relevant diagrams, similar to those in Chapter 17, follow question 2. Measuring consumer surplus change in a factor market, like the one for crude oil, assumes that the marginal valuations of barrels of crude oil are derived from the marginal valuations of the petroleum products that they produce.

2. Now assume that the United States is a net importer of crude oil. Show the impact of the price increase resulting from the loss of supply to the world market on social surplus in the U.S. market.
Measuring the Social Surplus Changes from a Shift in World Supply

- $S_{WN}$ — Normal supply
- $S_{WD}$ — Disrupted supply
- Consumer surplus loss: $P_1ghP_0$
- Social surplus loss due to disruption: abde
- Consumer surplus loss: $P_{1D}deP_{0D}$
- Producer surplus gain: $P_{1D}baP_{0D}$
Chapter 5

1. Suppose that you and two friends are going to share a house. You have to decide whether you will each purchase your own groceries and cook your own meals, or whether you will purchase groceries and cook meals as a group. What factors might make you more or less likely to choose the group option? Would you be more or less likely to choose it if there were five in the group rather than three?

If each person shops and cooks independently, then there are likely to be two problems. First, there are likely to be kitchen externalities — independent cooking will likely make it difficult to keep the kitchen clean. Second, there may be forgone economies of scale — larger containers of staples may be cheaper to purchase than equivalent quantities in smaller containers.

If the group shops and cooks collectively, then there are likely to be problems deciding what common property goods to supply, how to determine and monitor their consumption, and how to determine and monitor investment in the production of the common meals. Managing these common property problems are likely to be easier if the three house mates already have a positive working relationship that would make failure to contribute fairly to the collective endeavor personally costly. They would be more difficult the greater the heterogeneity in demands for cooked meals. For example, if all three were carnivores, vegetarians, or vegans, it would be easier to manage the collective endeavor than if each were a different sort of eater. Even heterogeneity in terms of quantities demanded could cause problems.

Other things equal, we would expect the common property problems to be greater the greater the number of house mates.

2. Consider a developing country with a single railroad between the primary port and the most populous city. Under what conditions might the railroad have natural monopoly characteristics?

In the short run, the answer depends on the current availability of alternatives such as trucking or water-borne services. In the long run, the availability of rights-of-way for competing railroads would also influence whether the existing railroad would limit its pricing to deter entry by a competing railroad.

3. Under what conditions is the market for vaccination against a communicable disease likely to be inefficient?

Vaccinations against communicable diseases often involve a positive externality
— the larger fraction of a population vaccinated against the disease, the less likely the risk of contracting the disease by those not vaccinated. (When the fraction of the population immune from a disease is sufficiently high so that the disease can no longer spread, the population is said to have “herd immunity.”) The size of the externality will depend on the potential of the person vaccinated to spread the disease. It is likely to be largest for people employed in jobs that bring them in close contact with many people and children, and smallest for those who do not interact frequently with others. If the size of the externality is large, then the market will provide too few vaccinations. In addition, information asymmetry about the effectiveness and risks of the vaccination may result in too high or too low a vaccination rate.

4. Show the social surplus loss in a situation in which a consumer’s uninformed demand schedule lies below her informed demand schedule.

If fully informed, then the consumer would purchase $Q_i$ units of the good rather than $Q_U$ units of the good. The social surplus loss is the triangle abc.
Chapter 6

1. *Why is the premium for health insurance provided by an employer typically much lower than the premium for the same coverage purchased by an individual?*

The most important reason for the usually large price difference is that individual policies are subject to a much more severe problem of adverse selection. Employment groups are formed for other reasons than the demand for health insurance. Not only are employees likely to be closer to a random sample of the population in terms of health risks, the requirements of employment may exclude those who are in the highest risk groups. A secondary factor is economy of scale in marketing and servicing policies.

2. *Why is it that public subsidy programs often result in much higher levels of expenditures than initially estimated?*

Often public subsidy programs create a moral hazard — the very existence of the subsidy induces activity that qualifies for it. So, for example, a program to make nursing home care more affordable will induce some families who would otherwise keep elderly or disabled members at home put them in nursing homes instead. If the original program cost estimates were based on the total number of qualifying people already in nursing homes, it would miss the expenditure on those who “come out of the woodwork” in response to the subsidy.

Chapter 7

1. *Each year almost 5000 people die in the United States waiting for organ transplants. This makes cadaveric organs extremely valuable resources whose allocation literally has life and death implications. Which, if any, of the following factors should be relevant to allocation: medical condition, probability of success, geographic location, ability to pay, age, family status, waiting time, and behavioral causes of organ failure?*

The Organ Procurement and Transplantation Network was created by the National Organ Transplant Act of 1984. Administered under contract with the Department of Health and Human Services by the United Network for Organ Sharing, the OPTN has adopted detailed allocation rules for all the solid organs. In general, these rules draw on four values:

*Medical necessity* — allocation favors those who are most ill. This has obvious
implications for efficiency, as those who are most ill are not necessarily those who would gain the most life-years or quality-adjusted-life-years from transplants.

*Probability of success* — obvious considerations such as blood type and organ size are considered. With respect to kidneys, there is considerable weight placed on matching donor and recipient antigens. (The weight placed on matching has been reduced in recent years out of concern that African Americans were being disadvantaged because they were less likely than whites to have matches.) Transplant surgeons usually informally bring this value to play by temporarily taking patients off the waiting list when their conditions fall below levels offering reasonable prospects for success.

*Geography* — allocation has a geographic component. For livers, for example, sharing for the sickest patients is by region, with allocation first locally, then regionally, and finally nationally for less ill patients. One rationale for geographic allocation is to reduce cold ischemic time — the time between extraction and transplantation. Another is concern that transplant centers will not work as hard to encourage donations if they only keep a small fraction of harvested organs (a common property problem). Finally, geographic preference may keep smaller transplant centers viable, increasing geographic access.

*Waiting time* — important in kidney allocation as a secondary factor. Raises interesting issue about how to count waiting time for someone who obtains a transplant that fails. Should waiting time be restored if the failure occurs soon after the transplant?

In the U.S., age, family status, ability to pay, and behavioral causes are not part of the official allocation system. Ability to pay, however, may affect whether or not patients are placed on the waiting list. Transplant surgeons may also informally take account of age and behavioral issues in making listing decisions. It is worth noting that the United Kingdom explicitly gives higher priority to younger patients in kidney allocation.

Behavioral causes of organ failure raise an interesting question: Should those who damaged their kidneys or livers because of substance abuse be given the same priority as those who suffer damage from factors beyond their control? It sometimes enters into listing decisions when surgeons try to estimate the likelihood that patients will comply with post-operative requirements such as regularly taking immunosuppressant drugs and avoiding certain behaviors.

It is interesting to note that some dialysis centers created advisory boards to help select patients on the basis of “social worth,” which included factors such as family status and employment.
2. Consider the last three rows of Table 7.2. Do the comparisons among the young, elderly, and female-headed households suggest anything about substantive and instrumental values in the U.S. political system?

A comparison of columns (1) and (2) show that government transfer programs have been dramatically more successful in reducing poverty among the elderly than among children. It might be that society places a higher value on ensuring minimal levels of consumption for the elderly than for children. It is more likely, however, that the disparity results from the relative political advantage of the elderly.

The high poverty rates among those female headed households with children get to the difficult value conflicts that arise in poverty policy. The respect society gives for reproductive choice limits the range of interventions that might be taken to discourage childbearing outside of marriage.

Chapter 8

1. The past twenty years have witnessed considerable concern in the United States about the quality of public schooling, particularly in urban areas. Apply the government failure concepts to various aspects of the public education problem.

The most relevant government failure is the problem of bureaucratic supply. Public schools enjoy local monopolies over publicly funded primary and secondary schooling. The absence of competition means that the schools will always have customers. Local regulations, often implement through teachers’ contracts, typically limit the ability of school principals to reward, discipline, and fire teachers, especially after an initial probationary period. State and federal regulations with respect to such things as special education, equal access, and curricular mandates, further constrain the ability of principals to exercise discretion, especially with respect to innovation.

Problems of representative government often arise because teachers’ unions, organized for economic reasons, provide a public good to their members in terms of lobbying for public spending, extra staffing, and favorable work rules. Consequently, in many jurisdictions, elected school boards often include large contingents of union backed members. These representatives may have interests and values that differ from local tax payers. They may also oppose innovations such as vouchers or charter schools.

Problems of decentralization explain why we observe great disparity in school quality within metropolitan areas. Higher income families are able to choose their school districts by choosing their residential locations. They bring with them
greater tax resources and generally provide children to the schools who contribute to an effective learning environment.

Problems of direct democracy often arise when school districts are required by law to have operating or capital budgets approved by referenda. By crafting the offered alternatives, perhaps the budget desired by the school board versus a stringent budget likely to be unattractive to a majority of voters, the board may be able to obtain a larger budget despite the fact that a majority of voters would favor a smaller one. See diagram below, which shows the median voter’s preferred budget size, the recursion budget that will obtain if the referendum is defeated, and the proposed budget, that will just be preferred by a majority over the recursion budget.

2. If you are a U.S. citizen, pick some public policy issue at the federal level that you find important. Do you know where your representative in the U.S. House stands on the issue? Do you know where your Senators stand on the issue?

Sadly, even some public affairs students may not know the name of their representative in the U.S. House. Many will not know their representatives’ positions, even on the issue that they believe important.

As an alternative, the instructor may wish to pick a policy issue.

Chapter 9

1. For reasons of brevity and desired pedagogical emphasis, the Madison taxi analysis focused more on the nature of the market and government failures present and less on the development and assessment of policy alternatives. What other policy alternatives might the analysts have considered?

As the “24/7 rule” precludes single-driver cab companies from entering the market, any alternative intended to increase competition would have to include its
elimination for at least small companies. To facilitate entry further, alternatives might combine elimination of the “24/7 rule” with restructuring of fees to reduce the per cab cost for single-cab companies. For example, the company fee might be reduced and the cab fee increased to generate the same amount of revenue but reduce the total fee required for a single-cab company.

2. Imagine that you are asked to analyze the regulation of taxi service in a city like Madison. Your research, however, leads you to predict that elimination of the “24/7 rule” would result in the absence of service during some periods. Design an alternative that permits the entry of single-driver cab companies but also guarantees round-the-clock availability of service.

One approach would be to keep the “24/7 rule” but exempt single-cab companies. Another approach would be to set up a sliding scale in which each company must cover time periods in proportion to the number of cabs it operates. For example, a single-cab company might be required to cover one under-served period per week, a two-cab company two such periods, etc.

Chapter 10

1. Consider a developing country that currently has no policies regulating the discharge of pollutants into its surface waters. In the past, there has been some degradation of water quality from agricultural waste. Increasingly, however, factories have begun to discharge industrial wastes into lakes and rivers, raising environmental and health concerns. What are the generic policy alternatives the country might adopt to limit or reverse the reductions in water quality from industrial pollution?

Under the status quo, the industrial firms are producing a negative externality in the form of pollution that inflicts costs on users of the surface waters. Several generic alternatives could be considered to address this negative externality:

1. Negative incentives: Taxes could be levied on particular pollutants if they could be measured. Alternatively, the could be levied on the market products that produce them. The former is generally preferable because it focuses directly on the externalities; the latter may be easier to implement.

2. Positive incentives: Subsidies could be offered for actual reductions in the emissions of pollutants, again if they could be measured. Subsidies might also be offered for investments in pollution-reducing technologies. Subsidies may not be a feasible alternative for the governments of developing countries with low fiscal capacity.
3. Process regulation: Where the government can identify technologies that would reduce pollution at reasonable cost, the government might adopt regulations requiring that these technologies be used. There is danger, however, that the technologies might not be appropriate for all the covered firms and, once installed, might delay the adoption of more appropriate technology when it becomes available.

4. Quantity regulation: The government might determine the maximum amount of pollutants that can be put into particular bodies of water and allocate quotas to firms that force cutbacks to reach these amounts.

5. Quantity regulation with tradeable permits: After some initial allocation of quotas, the government could either operate or facilitate a market in which firms could buy and sell quotas.

6. Framework regulation: If pollutants could be clearly linked to health effects, then a tort system might be put in place that would allow those harmed by the pollution to obtain compensation. This would probably not be a very effective approach as establishing causality and measuring damages would be costly and difficult to implement unless the country already had a well developed court system.

7. Nonmarket supply: If polluting firms were geographically concentrated, then it might be possible for the government to provide an alternative to discharge into surface water. For example, the government might pipe industrial waste to a treatment plant or perhaps to an isolated body of water that would become polluted but pose less health and environmental risks than general disposal.

8. Prohibition: Some particularly harmful pollutants might be banned outright, probably forcing the industries that produce them out of business.

2. *Your state or province is concerned that too few children are being immunized against childhood illnesses. What are some of the generic policy alternatives that could be adopted to increase immunization rates?*

The regulatory approach might specify a particular sequence of vaccinations that all children should receive. It could be enforced in a number of ways:

1. Require compliance as a prerequisite for attendance in public schools.
2. Require doctors seeing children to inform their parents about the rules.
3. Require day care providers to obtain proof of compliance before admitting children to care.
Nonmarket supply might involve sending vaccination teams to day care centers, kindergartens, and elementary schools to provide free vaccinations. Vaccinations might be supplied as part of government programs directed at poor families.

Demand side subsidies might be offered, say through vouchers issued when mothers and newborns leave the hospital, or through credits or deductions on income taxes.

Supply side subsidies might reimburse doctors for some fraction of the cost of vaccinations. Subsidies to vaccine producers might take the form of limitations on liability for harmful side effects.

Chapter 11

1. Imagine that a construction project will close a major parking lot on your campus for the next three years. As a consequence, some people currently parking on campus for a nominal fee will no longer be able to obtain permits. A member of the economics faculty has suggested raising the price substantially, from $25 per year to $200 per year so that the number of permits demanded at the higher price will equal the number available. It would have to be approved by the transportation planning committee, which includes representatives from the faculty, the administration, unionized employees, and students. How would you assess the prospects for adoption of the proposal? Do you have any ideas about how to improve the prospects?

An obvious starting point would be to assess the interests and beliefs of the groups represented on the planning committee. The representatives of the administrative staff and the faculty would probably support the higher fee as reasonable given the incomes of the groups they represent, though some may believe that allocation by willingness to pay is inappropriate in a society with different resource levels. The representatives of unionized employees is likely to oppose the measure as equivalent to removal of a job-related benefit. The student representative would almost certainly oppose the fee under the assumption that most of the reduction in permits would result from fewer students purchasing them.

The proposal might be made more attractive through a number of compromises to reduce selected impacts. For example, the representative of the union might be convinced to support the proposal if the additional revenue would be set aside for some other benefit. Similarly, the student representative might brought on board if some of the additional revenues were allocated to student activities. If there were a particular concern about students who depend on cars to commute, then a reduced price might be offered for students living more than some minimum
distance from campus. Funds might also be allocated for an electronic bulletin board to facilitate the formation of car pools with permits transferable among vehicles.

A heresthetical approach might involve linking the higher fees to expenditures on more environmentally attractive commuting alternatives such as bicycling or use of public transportation. For example, more bike racks might be installed, or monthly bus passes at highly subsidized rates might be made available to the university community. (At one of our institutions, the university makes a lump sum payment to the transit authority to provide bus passes to any faculty, staff, or student at no charge.)

The most effective rhetorical device would likely be to raise the adverse prospects of other likely approaches. For example, if fees were kept at their current levels, demand would exceed supply and drivers would have to face the risk of not finding a spot. Other allocation methods, such as faculty and staff first, would have obvious losers who might convinced to support the higher fee out of fear of being excluded.

2. Discuss the social construction of homosexuality. Has it changed or remained the same over the past forty years? Does it currently vary by demographic group? Discuss implications of your answers for public policy.

Forty years ago, there was a very strong stigma attached to homosexuality. Most homosexuals stayed “in the closet” so to speak and homosexuals were often the victims of violence from police and the public. Over the last forty years, however, openly homosexual Gay and Lesbian communities developed, initially in major cities like San Francisco and New York. Public perceptions of Gays and Lesbians have also changed substantially, though a majority still views homosexuality negative. For example, the percentage of the public agreeing with the statement, “Sexual relations between two adults of the same sex is always wrong” fell from 70 percent in 1973 to 55 percent in 2000; the fraction favoring laws to ban discrimination against homosexuals went from 61 percent in 1992 to 68 percent in 2000; the fraction supporting homosexuals in the armed forces went from 58 percent in 1992 to 76 percent in 2000 (Paul R. Brewer, “The Shifting Foundations of Public Opinion about Gay Rights,” *Journal of Politics* 65(4) 2003, 1208-1220.)

Interestingly, while the HIV/AIDS crisis initially seemed to increase the negative construction of homosexuals among the general public, the activities of organizations like ACT UP showed the group had more “power” than it had before. It also brought more homosexuals into the open.

Younger people, who have had more experience with seeing openly Gay and
Lesbian people, appear to have a more positive social construction of homosexuality. If this is the case, then we would expect the overall social construction to become more positive as their generation and the following ones make up a larger fraction of the population over time. Also, after an initial backlash against court-ordered same-sex marriage, some state legislatures have adopted laws to allow for it. One might speculate that these actions will make same-sex marriage more acceptable in other states, perhaps also contributing to a more positive social construction, an potential case of policy feedback affecting public opinion.

Chapter 12

1. Imagine that the transportation planning committee adopts the policy of raising the price of fees as described in the first discussion question in Chapter 11. Sketch a brief implementation scenario.

The director of parking sends out a letter notifying the university community that the parking fee for the next academic year will be raised to $200. Applications for the spots are received, and

Case 1: more spaces are demanded than available. The parking director makes a decision to have a waiting list, but one of the deans who was away for the summer ends up on the list and ...

Case 2: fewer spaces are demanded than available. The parking director makes a decision to offer the remaining permits at a reduced price, but his announcement creates an uproar from those who paid the full price...

Case 3: The economist’s prediction of demand was amazingly accurate and the number of permits demanded almost exactly equals the number available. When the academic year actually begins, however, there seem to be quite a few people willing to park on campus without permits and pay the $5 fine currently in place. Complaints also come in from the neighborhoods around campus, where off street parking is being taken up by people who previously parked on campus. Residents have already complained to the mayor, and ...

Redesign: the scenarios raise the likely possibility that the economist’s recommended price will not clear the market. While an auction might be designed to discover the market clearing price, less complicated approaches might be to have mechanisms in place to deal with excess or deficient demand — perhaps pre-announced lotteries to deal with the former and allocation of excess parking spots to more short-term parking. It also appears that the level of parking fines needs to be reassessed. The university might work with adjacent
neighborhoods to obtain better parking enforcement from the city.

Rewrite: Give it another try!

2. Your agency is considering how to deliver a new program that has been mandated by the state legislature. There is a specified level of funding, but the legislation does not specify how, or by whom, the program will be delivered. Your agency has narrowed the delivery alternatives down to two: Either deliver the program directly through the agency or deliver it through an inter-organizational network that includes several other state agencies and two not-for-profit agencies. Provide a review of some of the implementation issues that are likely to arise under each alternative.

The choice between agency delivery (alternative 1) and network delivery (alternative 2) involves a number of trade-offs that relate to implementation. There are several important advantages of agency delivery. First, the agency would have clear authority over its own employees and could utilize standard agency (i.e., “top-down”) incentives to ensure that the program is carried out as mandated. These incentives would be civil service-oriented and include the potential for the furtherance of their careers within the agency if managers and employees successfully implement the program. Second, all (or most) of the elements for successful implementation will be directly under the control of the agency. Third, (and closely related to the first two advantages), the agency will be able to second its own “fixer” who would have relatively high legitimacy, authority, and control of program elements. The disadvantages of agency delivery are that existing or newly hired employees may not have the skills or knowledge to competently carry out implementation. They may also not have the commitment to carry out a new program enthusiastically that may involve new ways of interacting with clients or require harder work. Thus, while the agency would have some incentives to deploy (see above), it will not normally have access to high-powered implementation incentives. There are several potential advantages of network delivery. First, the other organizations that would deliver the program may already have in place the employees with the requisite skills to deliver a superior quality program. Additionally, it may well be possible for the agency to ensure through contracting mechanisms that these employees are subject to relatively high-powered incentives to successfully implement the program. This can mean that they may be interested in innovations that cut cost, improve quality, or both (i.e., providing “bottom-up” advantages). The main disadvantage of network delivery stem from the additional complexity. There are several dimensions to this increased complexity. Organizations and individuals in the network may have highly heterogeneous goals and cultures. They may be used to high autonomy. Co-ordination of program elements is likely to be considerably
more difficult. This may be exacerbated by the reality that it may be impossible to find a viable fixer that has the knowledge and authority to co-ordinate very different organizations. In thinking about the advantages and disadvantages of the network alternative, you may want to also quickly scan the sections of the generic alternatives chapter that deal with advantages and disadvantages of contracting out and public-private partnerships.

Chapter 13

1. *Your city’s highway department currently operates sidewalk snow plows. During major snow storms the department gives top priority to clearing major streets. Consequently, sidewalks are often not plowed until several days after major storms.* What factors should the mayor consider in deciding whether or not to contract out for sidewalk snow plowing?

The delayed plowing of sidewalks results because it is not possible for the highway department to add enough labor, say through overtime or temporary employees, to complete both highway and sidewalk plowing quickly after snow storms. Therefore, there is a potential gain from contracting-out for these services so that they can be completed quickly. (The costs, in terms of citizen access and safety, of the delayed plowing should determine the maximum amount the mayor would be willing to pay out in contracts.)

The complexity of the task is not high, though it is complicated by uncertainty about the number and intensity of snow storms that will occur during the snow season. Will the contract be structured so that contractees received a set payment each season no matter how much plowing they must do? Or will the contract call for payments per plowing episode? These have different implications for the distribution of financial risk between the city and the contractees.

How will the contracts be let? One possibility is to divide the city up into zones and allow different contracts for each zone. If there are economies of scale, then perhaps one firm will seek contracts for more than one zone.

How will performance be monitored and rewarded? Will there be spot checking by city employees to assess the quality of the plowing? Will reliance be placed on citizen complaints to assess quality? Will there be financial penalties for lower quality than specified in the contract? How will disagreements about quality be resolved?

How important is asset specificity? Will potential bidders be willing to purchase or rent the specialized equipment needed? Will the risk of losing the contract encourage bidders to add in premiums to protect themselves from losses on
specialized equipment that they will suffer if their contracts are not renewed?

How will situations in which sidewalk plowing cannot be completed, say because a massive storm strands vehicles on sidewalks, be handled? What sort of provisions could be written in anticipation of such unusual events?

2. You are the mayor of a medium-sized city in a developing country. A company is seeking a contract that would give it rights of way for installing cables to provide television and modem services within the city limits. The contract would specify subscription rates for the first three years of the contract. Should you be concerned about opportunism?

The cable system is a very specific asset — its scrap value is much less than the costs of putting it in place. It is quite likely that the company will fear opportunistic behavior by the city: once the system is installed, the city may seek to change the terms of the contract, or its tax system, to capture more of the rents generated. The company may seek to prevent this by supporting candidates for the city council who will be protective of its investment. It might also try to gain protections from some higher level of government. (This is what happened in the United States.)

The company may also engage in opportunism. Its specific investment will create a barrier to entry from other cable companies. Thus, although there may have been high contestability for the initial contract, once the system is in place, contestability is much lower.

At the service level, a lot will depend on whether or not satellite dishes, high speed DSL phone lines, or other substitutes for cable will be available. If they are not, then the company may seek rate hikes for basic service, allow quality to degrade, or charge excessive prices for premium services. Aside from supporting favorably disposed candidates, the company may share rents (corruptly) with local officials.

Perhaps it would be worthwhile considering whether the city might own the cable system or perhaps allow technically inefficient, but less opportunism-prone, multiple systems.

Chapter 14

1. Academic researchers in the United States must follow increasingly stringent guidelines for the protection of human research subjects. Although much research involving interviews with elected or appointed officials is often declared exempt, it must nevertheless be reviewed by Institutional Review Boards at
universities and research organizations. The work of policy analysts is usually exempt from direct human subject regulation. Nonetheless, analysts have a responsibility to those who they rely on for information. What ethical principles do you think should guide analysts’ information gathering from people?

The National Commission for the Protection of Human Subjects of Biomedical and Behavioral Research, Ethical Principles and Guidelines for the Protection of Human Subjects of Research, April 18, 1979 (the “Belmont Report”), sets out three principles for research involving human subjects: respect for persons (recognition of their autonomy), beneficence (concern for their well being), and justice (fair recruitment of subjects when risks or benefits from participation are involved).

In the context of policy analysis, respect for persons includes accepting decisions by those who do not want to provide information and have no legal responsibility to do so. It also requires one to be honest and straightforward in explaining the reasons for seeking information from them, and recognizing that their time is valuable.

Beneficence is relevant in policy analysis primarily in terms of fulfilling any promises of confidentiality. It is important to inform respondents fully about the extent to which their information will be held in confidence. This may range from their willingness to be directly quoted to their desire for complete anonymity. Analysts have a responsibility for establishing mutually acceptable ground rules and then living up to them.

Justice probably doesn’t have a direct parallel for analysts. Obviously, analysts should conduct their information gathering within the ethical guidelines discussed in Chapter 3.

2. The authors have heard policy analysts claim, “the telephone is one of the most important tools of the policy analyst.” Should “the Internet is one of the most important tools of the policy analyst” replace this claim?

For analysts who must quickly gather information, the telephoning knowledgeable people is often the only feasible approach. To the extent that E-mail is a direct substitute for the telephone, the new claim seems justified. It might not be if one thinks of the Internet in terms of information gathering on the World Wide Web. It is certainly a great resource, but it may not provide access to the sort of specific information sought or enable analysts to question experts about what went into their written reports.

Chapter 15
1. Construct a goals/alternatives matrix for the Madison taxi regulation analysis presented in Chapter 9. How would your goals have to change if an alternative were added that involved the city organizing a common dispatching system for all taxi companies?

<table>
<thead>
<tr>
<th>Goals</th>
<th>Status Quo</th>
<th>Elimination of 24/7 Rule</th>
</tr>
</thead>
<tbody>
<tr>
<td>Efficiency</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Equity: Entrepreneurs</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Equity: Service Access</td>
<td>High</td>
<td>Medium to High</td>
</tr>
<tr>
<td>Fiscal Effects</td>
<td>Favorable</td>
<td>Less Favorable</td>
</tr>
<tr>
<td>Political Feasibility</td>
<td>High</td>
<td>Low*</td>
</tr>
</tbody>
</table>

*Higher if successful suit seems likely.

If another alternative involving a common dispatching system were introduced, then the goals would have to expand to include another equity impact category: fairness to service providers. Depending on how the common service were to be provided, other goals or impact categories would have to be added to insure that all the relevant effects of the policy were taken into account.

2. What goals might be relevant for assessing allocation systems for transplant organs?

A 1994 report by the United Network for Organ Sharing, “UNOS Rationale and Objectives of Equitable Organ Allocation” ([http://www.unos.org/resources/bioethics.asp?index=8](http://www.unos.org/resources/bioethics.asp?index=8)) lists the following ten goals:

1. Maximize the availability of transplantable organs.
2. Maximize patient and graft survival.
3. Minimize disparities in consistently measured waiting times until an offer of an organ for transplantation is made among patients with similar or comparable medical/demographic characteristics.
4. Minimize deaths while waiting for a transplant.
5. Maximize opportunity for patients with biological or medical disadvantages to receive a transplant.
6. Minimize effects related to geography.
7. Allow convenient access to transplantation.
8. Minimize overall transplantation-related costs.
10. Provide for accountability and public trust.

Note that several of these goals have multiple impact categories. For example, the first goal, maximize the availability of transplantable organs, has four impacts listed: promoting consent to donate, enhancing procurement efficiency, minimizing organ discards, and promoting efficiency in organ distribution and allocation.

Interesting discussion can flow out of how to deal with demographic and socioeconomic differences. For example, should younger patients receive higher priority than younger patients as is the case in kidney allocation in the United Kingdom? Should cause of medical condition, such as alcoholism or drug abuse, be relevant? Should the number of dependents be taken into consideration as was the case with early dialysis programs?

Chapter 16

1. Consider a regulation that would ban the use of cell phones while driving automobiles. List the effects of the regulation and classify them as costs and benefits.

A ban on cell phone use would essentially trade reductions in accident risk for greater inconvenience for cell phone users.

The potential benefits would fall into several categories:

- Reduced mortality risk for drivers
- Reduced morbidity risk for drivers
- Reduced property damage risk for drivers
- Reduced mortality risk for third parties
- Reduced morbidity risk for third parties
- Reduced property damage for third parties

As in the alcohol tax example in the text, the reductions in harm to third parties would clearly be benefits. The reductions in harm to drivers, however, may or may not be counted as benefits, depending on the assumptions one makes about how well informed drivers are about the risks posed by cell phone use while driving.

The costs would include:

- Reduced surplus from loss of on-road use of cell phone
Enforcement costs (diversion of officers and courts from other types of traffic enforcement)
Evasion costs — the costs of devices and activities that would make the ban harder to enforce
Possibly loss of public safety benefits if fewer people took cell phones with them in their automobiles

The benefits hinge on their being a higher accident risk from cell phone use. Although evidence seems to be mounting in this direction, the case overall is not yet very clear.

For a cost-benefit analysis of bans on cell phone use while driving, see Robert H. Hahn, Paul C. Tetlock, and Jason K. Burnett, “Should You Be Allowed to Use Your Cellular Phone While Driving?” Regulation 32(3) 2000, 46-56.

2. Cost-benefit analysis provides a method for identifying the most efficient alternative. Consider its relationship to distributional values from a theoretical and practical perspective.

Cost-benefit analysis seeks to measure aggregate willingness-to-pay for the existing distribution of wealth. (The status quo point in Figure 4.1). If the distribution of wealth were different, then the aggregate willingness-to-pay for alternative policies would likely be different as well.

Cost-benefit analysis also ignores the distribution of net benefits. In theory, there is no difference between a policy that concentrates all the net benefits on a single person and one that distributes them evenly over the population.

In its application, cost-benefit analysis sometimes brings in distributional assumptions indirectly. For example, cost-benefit analysis involving reductions in mortality risk generally use an average value for a life saved, which implicitly shifts policies away from those who would be willing to pay more for reductions in mortality risk, typically those wealthier, to those willing to pay less.

In assessing cost-benefit analysis as a tool for public policy, it is important to assess it in the context of existing rather than ideal institutions. As argued in Chapter 8, representative democracies tend to overemphasize concentrated costs and benefits. A well executed cost-benefit analysis would put equal weight on all costs and benefits and therefore might very well have the effect of improving the distribution of income. For more on this argument, see Aidan R. Vining and David L. Weimer, "Welfare Economics as the Foundation for Public Policy: Incomplete and Flawed but Nevertheless Desirable," Journal of Socio-Economics 21:1 (1992), 25-37.
Chapter 17

1. Imagine you wanted to estimate the price elasticity of demand for cigarettes in the United States. One approach might be to take advantage of the differences in prices across states due to differences in cigarette taxes. For example, you might regress per capita consumption of cigarettes in each state on the retail price of cigarettes in that state. What other variables might you want to include in your model?

The basic idea is to ask yourself: What other differences across states might contribute to different levels of cigarette consumption? The list might include demographic variables such as age distribution, racial composition, and educational achievement. Regional effects might also be relevant. A particular complication might arise if stated engage in different levels of anti-smoking campaigns and restrictions on smoking in public places — finding data to create variables to control statistically for these differences would probably be difficult.

2. We commend the EPA team for re-estimating its model of the relationship between gasoline lead and blood lead in an effort to rule out alternative explanations for its initial finding of a strong positive relationship. Would we also commend them if they had initially found no relationship but continued to modify their models in an effort to find a positive effect?

The EPA analysts started out with what they believed to be an appropriate model and then tried to take account of the findings with other possible explanations. If they had initially found no relationship, but searched across various models until they found one, we would probably be skeptical about their findings — we would be concerned that they happened to find a fit to their particular data rather than a true relationship. Of course, in situations in which there is a very high cost of not finding a relationship when one actually exists, we might view their searching in a more favorable light.