Doctoral Take-home Examination

Policy Process and Analysis

Fall Semester, 2015

Please Note: The questions are organized into discrete parts and sub-parts to aid you in recognizing the different sections of a question and to clarify what you are asked to do.

**PART I. Please answer one of the following two questions**

1. Explain the concept of Pareto efficiency. What is its relevance to policy analysis, given that it is an abstract benchmark unlikely to be achieved by most policies that are subject to debate? Continue by explaining the Kaldor-Hicks potential compensation principle (also known as a potential Pareto improvement) and its significance to rational policy analysis – in particular, the practice of cost/benefit analysis. What makes the Kaldor-Hicks compensation principle a “weaker” criterion to satisfy than the Pareto criterion? Do you think Kaldor-Hicks is a sound basis for making policy decisions; why or why not? Discuss at least one real-world policy that has been, or could be, justified on the basis of the Kaldor-Hicks principle and evaluate it on that basis. In addition, note that the Kaldor-Hicks criteria is often criticized because: (a) compensation is typically not paid in practice; and (b) the transaction costs associated with the act of compensation potentially outweigh efficiency gains. As part of your answer, discuss dynamics of the policy process that might contribute to these results.
2. Carefully explain why, in the event of externalities, a free market equilibrium is not efficient. Be sure to explain what is meant by "efficient." In your answer, describe two examples of goods or services that have positive externalities. Also, describe two examples of goods or services that have negative externalities. For one of your examples of a negative externality, propose a course of public action that could lead to a more efficient level of output (from a public perspective). Drawing on the relevant literature, be sure to thoroughly explore some of the tradeoffs of that course of action. Then discuss how the recommendations from Ronald Coase’s “Problem of Social Costs” could be applied to this negative externality. What would be the barriers to implementing the “Coase Theorem” to this problem in the real world?

**Part II. Please answer one of the following two questions:**

3. The privatization of government services through contracting out with private (including nonprofit) providers has been an alternative service provision method for government for centuries in the U.S. and other nations. However, governments have increasingly availed themselves of this option in recent decades. Assume that you wish to study a specific issue surrounding privatization: whether state-run prisons are less costly that privately-contracted prisons.

1. What are the theoretical considerations that might lead you to anticipate that state-run prisons are lower-cost? What are the theoretical considerations that might lead you to anticipate that privately-run prisons are lower cost? Ex ante, what do you anticipate that the net effect on costs would be for privatizing prisons?
2. Imagine that you have been provided quarterly data on the total operating costs for each prison in every state, along with data on the average number of inmates in each prison for the quarter, the occupancy rate, the number of guards, identifiers for where each prison is located, and whether the prison is state-owned and operated or whether it’s privately owned and operated (assume those are the only two options).
   1. What statistical issues are there with the data that would prevent you from inferring true cost differentials based on comparing the mean costs for the two types using these data?
   2. How would you propose solving that problem? Feel free to assume that you can locate additional explanatory variables if you like, but be sure to explain why you want them and how they help you overcome the statistical problem you identify in b(i).
   3. Write down the estimating equation used to model the cost differential, and explain how it will inform the question of which approach to prison management is least costly.

4. Consider a lake that is currently being used by the community at large, with no restrictions on access; there are two uses for the lake, water-skiing and fishing. Social welfare is increasing in the number of fish that are taken from the lake and the number of people who are skiing at each point in time. However, the more people who ski, the fewer fish that can be taken, and the more fishing boats there are, the more hazards for skiers.

1. Discuss what factors you would need to take into consideration to decide what the correct (i.e., optimal) number of people fishing or skiing would be. What costs and benefits would have to be compared?
2. Assume that transactions costs for writing enforceable contracts between individual skiers and fishermen are very high, such that coordination between them is not feasible. How does that affect the range of options you face for managing the lake?
3. Discuss how you would go about actually measuring the factors you outline in 4(i) above. Propose a realistic mechanism for gathering data and outline the nature of the data you would obtain.
4. Discuss the estimation strategy necessary to evaluate the models you would estimate – including a discussion of any statistical issues inherent in the data you propose collecting and how those issues could be overcome.

**PART III: Please answer one of the following two questions:**

5. What is the role of government? Why do we have governments? Discuss this question from two perspectives, at least one of which must be a neoclassical economic perspective. How do each of the two perspectives you discuss impact the way you would conduct policy analysis, especially the way that you measure whether a given program has met it’s goals?

6. Consider the policy process. There are a number of theoretical explanations of that process that might link aspects of policy creation - such as theories of justice or positive theories of regulation (i.e., that there is a market for regulations) – together with theories of implementation – such as capture theory or considerations of street-level bureaucracy.

1. Outline one coherent viewpoint of the policy process that tells the story of how policies are conceived and actually implemented (on-the-ground, as it were). Use whichever pieces of the available (often competing) theories you find compelling – just be sure that your description of the process is coherent.
2. Given your theoretical understanding of the policy process (as outlined in 6(i) above), what barriers exist between the “original intent” of the policy maker and the actual form that the policy takes upon implementation?
3. Given your understanding of the process, how responsive is the policy environment to changing public needs or empirical realities? How does this affect your view of the average adequacy of our policy environment?