

**Consumer Science 579 (formerly 501)**

**Consumer Policy Analysis & Regulation**

**TU and TH 9:30-10:45**

**Room: 2255 Nancy Nicholas Hall**

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**Instructor:** J. Michael Collins, 4208 Nancy Nicholas Hall, jmcollins@wisc.edu, Phone: 616-0369

**Office Hours:** Tue & Thur 11:00-11:45 and by appointment

**Teaching Assistant:** Nilton Porto, 4249 Nancy Nicholas Hall, nporto@wisc.edu

**Office Hours:** 11:00 - 12:00 PM, W-F

**Catalog Description:** Analysis of consumer policies enacted and proposed at federal, state, and municipal levels; application of economic analysis to consumer laws, public policies and regulations; study of the process of creating and enforcing legislation and impacts on consumers' well-being.

**Resources:**

We will primarily use academic and popular press articles related to applications of consumer policy. Learn at UW ([learnuw.wisc.edu](http://learnuw.wisc.edu)) will be your resource for this course. *Consumer Policy Toolkit* is a workbook available online from the OECD and offers a useful overview of consumer policy and behavioral economics. The text is available online or at Learn@UW.

Portions of the course will build on principles of economics taught in CS 477. The text for this course, currently Robert H. Frank's *Microeconomics and Behavior*, will be useful. In particular subjects related to consumer welfare, market failure, externalities and the economics of information.

**Prerequisites:** This is an applied microeconomics course. At least one course in intermediate microeconomics theory (CS 477 or equivalent) or instructor approval.

**Course Overview:** Consumer policies address a broad range of market activities including regulations regarding the quality or price of goods and services, information disclosures, specifications and standards. Understanding the rationales and mechanisms of these policies is critical for professionals in the public and private sectors, as well as consumers in general.

**Course Objectives:** The goal of this course is to understand policies that affect consumer wellbeing. The course uses the tools of microeconomic analysis to investigate the various rationales for and the effects of government regulation.

**Learning Outcomes:**

1. After the successful completion of this courses, students will be able to apply microeconomics concepts to better understand the mechanisms of consumer policies and regulation.
2. Students will understand historical and institutional perspectives that have led to or limited the scope of consumer protection initiatives and/or specific market regulations.
3. Students will be able to apply concepts from the social sciences to real world issues across a variety of fields including financial services, and food and drugs, health and other markets.

**Assignments:** The course will include in class activities, problem sets and policy memos, which are “real world” policy issues student will analyze to make recommendations. All problem sets, memos and take home project assignments must be submitted to the dropbox by the date and time due. Assignments should be typed, single space, in a 12-point font and using standard one-inch margins. Unless otherwise specified, assignments should be saved as Adobe pdf.

- In Class Assignments (10%). Many class days will have a group or individual assignment to turn in; these will not be graded but do count for your final grade.
- Problem Set 1 (5% ). Applications of microeconomic concepts for practice.
- Problem Set 2 (5% ). Applications of microeconomic concepts for practice.
- Policy Memo 1 (5% ). Determining market failure and assessing detriment.
- Policy Memo 2 (5% ). Consumer protection and the law.
- Mid-term (20%). Readings, lecture material and assignments to the prior class. Format will be multiple choice and short essay questions.
- Final exam (25%). The exam will cover all readings, lecture material and assignments for the semester.
- Project (20%). Consumer protection policy analysis memo and video. The project deliverables are (1) a proposal (1-2 paragraphs); (2) presentation (approximately 5 mins); (3) final memo (5 pages maximum). Presentations will be recorded and posted on YouTube for educational purposes.
- Participation (5%). Participation will be measured by attendance and participation in classroom and/or online discussions. There are no excused absences beyond University specific exceptions.

**Grading Policy:** In this class we will adhere to University grading standards and policies of academic misconduct as stated here.

Students must be cautious to avoid plagiarism defined in the UW bylaws as ‘using another person’s ideas, words, or research and presenting it as one’s own by not properly crediting the originator.’ For more information on what is considered plagiarism and how to avoid it, see The Writing Center’s handout entitled Acknowledging, Paraphrasing, and Quoting Sources at [writing.wisc.edu](http://writing.wisc.edu).

Except when clearly stated, all work is to be done individually. Students are encouraged to study together for exams and to engage on discussion of topics and readings presented in class.

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|-------------------|------------------|-----------------|---------------|
| • A: 93 and above | • B: 83 - 86.99  | • C: 70 - 76.99 | • F: below 60 |
| • AB: 87 - 92.99  | • BC: 77 - 82.99 | • D: 60 - 69.99 |               |

Grades are points out of a possible 100.

**Communication:** In general I will not reply to individual emails regarding course questions or material, but may incorporate comments by email into class discussion. [Learn@UW](mailto:Learn@UW) is the primary communication tool for this course.

**Accommodations:** Your success in this class is important to me. If there are circumstances that may affect your performance in this class, please let me know as soon as possible so that we may work together to develop strategies for adapting assignments to meet both your needs and the requirements of the course. The McBurney Disability Resource Center provides resources for students with disabilities ([www.mcburney.wisc.edu](http://www.mcburney.wisc.edu), 702 W. Johnson, Suite 2104, ph: 608-263-2741). You will need to provide documentation of disability to them in order to receive official university services and accommodations.

# Course Outline

## 1 Course Introduction

### Overview - Sept. 3

- Case: Payday Loans in Wisconsin [here](#)

### Behavioral Theories Guiding Policy - Sept. 5

- Reading: NIH Social and Behavior Theories Review (Online text: Sections 3 & 4) [here](#)

## 2 Economic Theory, Market Failure and the Rationale for Policy Interventions

### Consumer Surplus - Sept. 10

- Reading: T.R. Hicks “The Rehabilitation of Consumer‘ Surplus” *The Review of Economic Studies* Vol. 8, No. 2 (Feb., 1941), pp. 108-116 (sections 3-5) ([Learn@UW](#))
- Khan Academy on consumer surplus [here](#)
- Case: Price discrimination (*The Economist*) [here](#)
- Case: Deep Pockets (*The Economist*) [here](#)

### Externalities - Sept. 12

- EconLib: Externalities by Bryan Caplan [here](#)
- Reading: Khan Academy on externalities [here](#)
- Case: Fake and Status in China (*The Economist*) [here](#)
- Case: Living the High Life (*WSJ*) [here](#)

### Public Goods - Sept. 17

- EconLib: Public Goods by Tyler Cowen [here](#)
- Reading: The Qwerty Myth (*The Economist*) [here](#)
- Case: Is Education a Public Good or a Private Good? (*The Chronicle*) [here](#)
- Case: The higher education paradox: a public good but private cost (*The Guardian*) [here](#)

### Monopolies, Pricing Power, Cartels, Antitrust - Sept. 19-24

- EconLib: Monopoly by George J. Stigler [here](#)
- EconLib: William F. Shuggart III on industrial concentration [here](#)
- Khan Academy on oligopolies [here](#)
- Case: *The Economist* on Google available [here](#)
- Case: Whole Foods and Wild Oats merger (*Forbes*) [here](#) and [here](#)
- Case: FTC and Web Search (*WSJ*) [here](#)
- Case: Controlling the Supply of Raisins (*Economist*) [here](#)

## Economics of Information & Search - Sep 26-Oct 1

- Working paper on beer pricing [here](#)
- EconLib: Information Economics by Joseph Stiglitz [here](#)
- EconLib: Consumer Protection by Daniel B. Klein [here](#)
- Reading: Columi, B., 2012, Save \$36 billion in U.S. Healthcare spending through Price Transparency (Learn@UW)

### *Problem Set #1 - Due October 3*

## Insurance & Expected Utility - Oct. 3

- EconLib: Richard Zeckhauser on insurance [here](#)
- EconLib: Morgan Rose on risk and uncertainty [here](#)
- Case: Peer to peer insurance (The Economist) [here](#)
- Case: High deductible Health Plans (US Today) [here](#)

## 3 Legal Issues and Redress

### Legal Frameworks & Liability - Oct. 8

- EconLib: Liability by W. Kip Viscusi [here](#)
- EconLib: Law and Economics by Paul H. Rubin [here](#)
- Case: Ratings-firms Liability (The Wall Street Journal) [here](#)

### Consumer Detriment - Oct. 10

- Textbook: OECD Chapter 3 (Learn@UW)

## 4 Information Remedies

### Warning Disclosures and Labels - Oct. 10-15

- Case: Multivitamins Labels (The Wall Street Journal) [here](#)
- Case: Sunscreen Labels [here](#)
- Case: Graphic Tobacco Labels (The Huffington Post) [here](#)

### *Policy Memo #1 - Due October 22*

Determining Market Failure and Measuring Damages

### Price Regulation - Oct. 22

- EconLib: Stigler and Price Regulation [here](#)
- EconLib: Price Controls by Hugh Rockoff [here](#)
- EconLib: Rent Control by Walter Block [here](#)
- Khan Academy on Rent Controls [here](#)
- Case: Usury (The Economist) [here](#)
- Case: Stockholm struggles to supply housing [here](#)

## Quality Regulation - Oct. 24

- Reading: Jin, G. and P. Leslie, 2005, The Case in Support of Restaurant Hygiene Grade Cards, Choices here
- Case: Kleiner, M.M., 2006, Regulating Occupations: Quality or Monopoly? here
- Case: Product Safety Regulator Hobbled by Decades of Negligence here

### *Project Proposal - Due October 29*

## Advertising - Oct. 29

- EconLib: Advertising by George Bittlingmayer here
- Case: The Ultimate Marketing Machine (The Economist) here
- Case: Media Industry Helped Drug Firms Fight Ad Restraints (The Wall Street Journal) here
- Case: Disney and Food Ad Policy (NYT) here
- Case: False Claims (Learn at UW)

### *Problem Set #2 - Due October 31*

## Moral Suasion: Social Responsible Practices - Oct 31

- Case: Social Responsible Practices (Learn@UW)
- Case: Adidas and UW-Madison here
- Case: A Thread of Hope (Learn@UW)

## Cost Benefit Analysis Nov. 5

- Reading: Arrow et al. Is there a role for Benefit-Cost Analysis in Environmental, Health, and Safety Regulation? Science, Vol 272, April 12, 1996 (Learn@UW)
- EconLib: Benefit-Cost Analysis Paul R. Portney here
- Case: The Case for Legalizing Pot (Salon) here
- Case: Cost Benefit to Independent Agencies (Washington Post) here

## Midterm - November 7

- In class, multiple choice and short answers.

## 5 Regulatory Institutions and Processes -

### Regulatory Agencies - Nov. 12

- Reading: Elizabeth Cohen. Is it time for another round of consumer protection? The lessons of twentieth-century U.S. history. Journal of Consumer Affairs, 44(1) p 234-246, 2010 (Learn@UW)
- Reading: Gary Becker on mortgage regulatory capture here
- Federal Budget overview from the Center on Budget and Policy Priorities here and The Washington Post here
- Case: Overhaul of the FDA (Food Safety News) here

## 6 Applications

### Food and Drugs - Nov. 14

- Case: Vioxx (USA Today) here and Learn@UW article
- Case: Unpasteurized Milk advocates (The Wall Street Journal) here and potential dangers (FDA) here
- Case: Health benefits of marijuana (NYT) here and economic impact (CNBC) here

### Health Markets - Nov. 19

- Reading: Consumer Driven Health Care (Bureau of Labor Statistics) here
- Reading: Understanding Health Care Reform (PBS Hour) here
- Case: Long-Term Health Insurance (NPR) here and (AARP) here

### Financial Services - Nov. 21 & Dec. 3

- Reading: Whitaker, S., 2010, A Conference on Consumer Protection in Financial Product Markets, Cleveland Federal Reserve (Learn@UW)
- EconLib: The Stock Market by Robert P. Murphy here
- Understanding Qualified Residential Mortgage - QRM (The Wall Street Journal) here and (Center for American Progress) here
- Case: Mortgage disclosures (Office of the Thrift) (Learn@UW)
- Case: Vanilla Mortgages (WSJ) here
- Case: Financial Services for the Poor (The Economist) here

### Invited Speaker - Nov. 26:

- Katherine Sydor, Office of Consumer Policy, US Department of Treasury

*Thanksgiving- No CLASS Nov. 28*

### **Policy Memo # 2 Due Dec. 3**

Consumer deception, protection and the law.

### Invited Speaker - Dec. 5:

- Holly Pomraning, Assistant Attorney General, Wisconsin Department of Justice, Consumer Protection and Antitrust Unit

### Class Projects - Dec. 10

- Watch videos

### Wrap-Up/REVIEW for Final - Dec. 12

### Final Exam

- December 15<sup>th</sup>, 2:45-4:45 PM, Social Sciences room 5106
- University appointed time - you are expected to take the final at this time.