

Decisions and Organizations

Public Policy 31920

Spring 2011

Instructor Scott Ashworth

email sashwort@uchicago.edu. Please put “PPHA 319” in the subject line for correspondence related to the course.

Office 1155–114

Office Hours Tues, 2–3; Wed, 3–4

Head TA Jon Rogowski (jrogowski@uchicago.edu)

TAs Rachel Farris (rfarris@uchicago.edu)
Meredith Hendrix (meredithhendrix@uchicago.edu)
Konrad Turski (turski@uchicago.edu)
Congyi Zhou (zhoucongyi@gmail.com)

Lectures MW 1:30-2:50, in Kent 120.

Description The core course on management for public policy will cover two main topics: managerial decision making and incentives.

Managerial decision making: We’ll start with a comparison of the normative framework that economists use to think about rational choice and the experimental evidence that psychologists use to argue that real-world decision makers do not satisfy those normative criteria. This unit is useful both for guidance about ways to improve the students’ own decision making as practitioners, and as background for thinking about the currently fashionable “nudging” or “libertarian paternalism” approach to social policy.

Incentives: In any organization, control over actions will be at least partly decentralized. And that immediately implies that the managers must design incentives so that these private decisions are made in ways that advance, rather than retard, the organization’s goals. We will address this general theme in the context of designing incentives for agents who must work on several tasks, who work in teams, and who are concerned with pleasing outside audiences. Applications will be drawn from education, law enforcement, and agency level rule-making.

Requirements The course has four requirements: participation, problem sets, semester long project, and two exams.

Participation You are expected to do the readings and attend class. There will also be sections led by the TAs. Attendance at these is optional but encouraged.

Problem Sets There will be five problem sets during the quarter. They are due at the beginning of class on the date indicated on the syllabus. You will have a week for each problem set. No late problem sets will be accepted.

Project You will choose a specific policy area, and identify a specific managerial issue that arises in addressing the policy. Using the tools developed in the course, you will either highlight a policy intervention that might not have been raised in the debate or demonstrate how some argument being made in the debate might be wrong due to a failure to appreciate the logic of incentive design or decision-making. The project should be written up as a brief memo—no more than 5–7 pages—that presents your analysis. Your policy example should not be one that we discuss in class.

Exams There will be two exams. The final is comprehensive.

Problem sets and projects will be done in teams of four students. You should form a group during the first week of class, and work with that group on all assignments. If you have difficulty assembling a study group, we will help match students. After the final assignment is handed in, each student will submit a grade for each person in his or her group, evaluating them on effort.

Prerequisites I will not enforce any formal prerequisites, but this course is designed to fit into the Harris School's MPP core, and students who have not completed most of the fall core will probably have a hard time.

Reading There is one book to purchase at the University Bookstore:

- Itzhak Gilboa, *Making Better Decisions: Decision Theory in Practice*. 2011. Wiley-Blackwell.

Other readings will be made available on the course website at <https://chalk.uchicago.edu>.

Many of the readings, especially the journal articles, are highly technical. You are responsible for understanding the details only insofar as they are covered in the lectures. However, it is important to understand the basic arguments made in each piece. For each article, it will be helpful to have ready answers to the following questions prior to the relevant lecture: What is the authors point? How does s/he make it: i.e., what is the model?

Grades Grading will be based on the course requirements as follows: final exam (35%), midterm exam (25%), problem sets (25%), project (15%).

The midterm will be in class on Feb. 8, and the final exam will be on Monday, March 12, from 9 AM to noon.

Procedure for Appealing a Grade If you believe that your grade on any assignment or exam question is incorrect or unfair, you should submit your concerns, in writing, to the professor.

The written appeal should fully summarize what you believe the problems are and why. The professor and the TA responsible for the particular problem will consider your appeal and respond in writing. If you are not satisfied with the response, you may resubmit the assignment or question for regrading in its entirety by the professor. This grade will be final.

Schedule and Readings

JAN. 4 Introduction

JAN. 9 Bias and Heuristic in Choice under Certainty

Gilboa, pp. 1–34, 46–52.

Diamond and Hausman (1994) “Contingent Valuation: Is Some Number better than No Number?”, *Journal of Economic Perspectives* 8: 45–64

JAN. 11 Bias and Heuristic in Judgment

Gilboa, pp. 34–45, 63–72.

JAN. 16 MLK Day—Class Cancelled

JAN. 18 Choice with Risk and Uncertainty

PROBLEM SET 1 DUE

Gilboa, pp. 98–110, 123–130, 141–150.

JAN. 23 Expected Utility as a Normative Tool

Gilboa, pp. 110–123, 166–174.

JAN. 25 Information Aggregation

PROBLEM SET 2 DUE

Meiowitz and Tucker (2004) “Learning from Terrorism Markets”, *Perspectives on Politics* 2: 331–336.

JAN. 30 Conformity and Groupthink

Sunstein (2000) “Deliberative Trouble?: Why Groups Go to Extremes”, *Yale Law Journal* 110:71–119.

Garciano and Posner (2005) “Intelligence Failures: An Organizational Economics Perspective”, *Journal of Economic Perspectives* 19: 151–170.

FEB. 1 Coordination and Managing Error

PROBLEM SET 3 DUE

Arrow (1974) *The Limits of Organization*, ch. 3.

Heimann (1993) “Understanding the *Challenger* Disaster: Organizational Structure and the Design of Reliable Systems”, *American Political Science Review* 87: 421–435.

Carpenter (2004) “The Political Economy of FDA Drug Review: Processing, Politics, and Lessons for Policy”, *Health Affairs* 23: 52–63.

FEB. 6 Delegation and Loss of Control

Bendor, Glazer and Hammond (2001) “Theories of Delegation”, *Annual Review of Political Science* 4:235–269.

FEB. 8 Midterm

FEB. 13 Incentives and Moral Hazard

Gibbons, “Lecture Note 1: Agency Theory”.

FEB. 15 How Powerful Should Incentives Be?

Roberts (2009) “In Praise of Weak Incentives”, lecture at the LSE, March 26. Audio (mp3) and video (mp4) available on Chalk.

Holmström and Milgrom (1991) “Multitask Principal Agent Analyses: Incentive Contracts, Asset Ownership, and Job Design”, *Journal of Law, Economics, and Organization* 7: 24–52.

FEB. 20 Screening and Selection

Lazear and Shaw (2007) “Personnel Economics: The Economist’s View of Human Resources”, *Journal of Economic Perspectives* 21: 91–114.

Akerlof and Kranton (2005) “Identity and the Economics of Organization”, *Journal of Economic Perspectives* 19: 9–32.

FEB. 22 Relationships and Missions

PROBLEM SET 4 DUE

Gibbons, “Lecture Note 2: Relational Contracts”.

Gibbons and Henderson (2011) “Relational Contracts and Organizational Capabilities”, *Organization Science*.

Tirole (1994) “The Internal Organization of Government”, *Oxford Economic Papers* 46: 1–29. Sections 2–3.

Carpenter (1998) “The Corporate Metaphor and Executive Department Centralization in the United States, 1888–1928”, *Studies in American Political Development* 12: 162–203.

FEB. 27 The Civil Service System

Hecló (1977) *A Government of Strangers: Executive Politics in Washington*, ch. 3 (pp. 84–105) and ch. 4 (pp. 113–142).

FEB. 29 Oversight and Monitoring

PROBLEM SET 5 DUE

Tirole (1994) “The Internal Organization of Government”, *Oxford Economic Papers* 46: 1–29. Section 4.

McCubbins and Schwartz (1984) “Congressional Oversight Overlooked: Police Patrols versus Fire Alarms”, *American Journal of Political Science* 28: 165–179.

Lewis (2011) “Presidential Appointments and Personnel”, *Annual Review of Political Science* 14: 47–66.

MARCH 5 Interest Group Influence

Dal Bo (2006) “Regulatory Capture: A Review”, *Oxford Review of Economic Policy* 22: 203–225.

MARCH 7 Privatization and NGOs

PROJECT DUE

Gibbons, “Lecture Note 3: Hold-Up (May Be Your Friend)”.

Shleifer (1998) “State versus Private Ownership”, *Journal of Economic Perspectives* 12: 133–150.

Werker and Ahmed (2008) “What Do Nongovernmental Organizations Do?”, *Journal of Economic Perspectives* 22: 73–92.

MARCH 12 Final Exam (9am)