

**University of Waterloo**  
**Department of Economics**  
**Econ 393 – Section 001**  
**Market Failures**  
**Fall 2020**

**Instructor Information**

Instructor: Ryan George  
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The instructor will only respond to emails that include “Econ 393” in the subject line of the message.

**Territorial Acknowledgement**

We acknowledge that we are living and working on the traditional territory of the Attawandaron (also known as Neutral), Anishinaabe and Haudenosaunee peoples. The University of Waterloo is situated on the Haldimand Tract, the land promised to the Six Nations that includes ten kilometres on each side of the Grand River.

**Course Description**

Markets fail to allocate resources well for a variety of reasons. Firms may have power to direct activity in an industry to their advantage. Participants may act with limited knowledge of others’ motivations or capacities. Some actors do not acknowledge the true costs or benefits of their actions. In each of these cases, decisions made by private individuals yield outcomes that could be improved upon in a collective sense. We will study these situations and the policies and mechanisms that economists have proposed to achieve superior outcomes. An overarching concern will be the appropriate use of market mechanisms in facing societal problems.

**Course Goals and Learning Outcomes**

Upon completion of this course, students should:

- A. Be familiar with the analytical tools economists use to study market failures in real economies.
- B. Be more literate concerning market mechanisms and their application.

**Readings Available on LEARN**

- Announcements and updates on course progress.
- Lecture videos, and slides with transcriptions.

- Assignments, and practice problems and their solutions.
- Discussions threads for student interaction on set topics.

### Readings Available through Library Course Reserves

- Thomas Nechyba, *Microeconomics: An Intuitive Approach with Calculus* Ch. 21 “Externalities” (Mason OH: South-Western Cengage, 2011).
- Hal Varian, *Intermediate Microeconomics: A Modern Approach* 8<sup>th</sup> ed. Ch. 36 “Public Goods” (NY: WW Norton, 2010).
- Oz Shy, *Industrial Organization: Theory and Applications* Ch. 15 “Management, Compensation, and Regulation” (Cambridge: MIT Press, 1995).
- Jeffrey Perloff, *Microeconomics: theory and applications with calculus* Ch. 16 “Uncertainty”

### Course Requirements and Assessment

Assessment	Date of Evaluation (if known)	Weighting
Assignments (4 @ 10% each)	Sept 25, Oct 23, Nov 20, Dec 7	40
Recorded presentations (2 @ 10% each)	Oct 5, Nov 2	20
Participation in discussion threads	Oct 8-9, Nov 5-6	10
Final Assignment	Dec 18	30
Total		

### Assignments

There will be four assignments over the course of the term. Students will write up their answers and scan or photograph them and deposit them by the due date in the appropriate Learn dropbox.

### Short Presentations

- 1) (Due Oct. 5) Read the article Elinor Ostrom, James Walker and Roy Gardner, “Covenants with and without a sword: self-governance is possible” *American Political Science Review* 86(2) June 1992: 404 - 417. As a member of a group of three students you will present one section of the article to your fellow group members and discuss the section’s relevance to the course material studied so far.
- 2) (Due Nov. 2) Read the article Michael J. Sandel, “Market Reasoning as Moral Reasoning: Why Economists Should Re-engage with Political Philosophy” *The Journal of Economic Perspectives*, Vol. 27, No. 4 (Fall 2013), pp. 121-140. As a member of a group of three

students you will present one section of the article to your fellow group members and discuss the section's relevance to the course material studied so far.

### **Discussion Thread Participation**

During the weeks of Oct 5 and Nov 2, following the submission of presentations, students will spend time reacting to their fellow group members' presentations through discussion threads. Each group will engage in a discussion about the relation of the assigned article to the course material.

### **Final Assignment**

The final assignment will combine problem solving questions with questions that involve the interpretation of the models used and their applicability. The assignment will be typed and graphs attached separately. Turnitin matching software will be used to written answers reflect individual student work (see more below). It is **due by submission to the dropbox on Friday, December 18<sup>th</sup> (by 4:30pm).**

## Course Schedule

	Date	Lecture Topic	Readings Due
1	Sept 8-11	Review of choice and markets	
2	Sept 14-18	Introduction to Externalities	Nechyba Ch.21
<b>Assignment 1 Friday, Sept 25</b>			
3	Sept 21-25	Production Externalities: pollution	Nechyba Ch.21 "Externalities"
4	Sept 28- Oct2	Production Externalities: common property resources	Nechyba Ch.21
<b>Presentation 1 due Monday, Oct 5</b>			
5	Oct 5-9	Norms and common property <i>discussions</i>	Ostrom et al. "Covenants with and without a sword"
6	Oct 12-16	No classes – Reading Week	
<b>Assignment 2 due Friday, Oct 23</b>			
7	Oct 19-23	Consumption externalities and missing markets	Nechyba Ch.21
8	Oct 26-30	Public goods	Varian Ch.36 "Public Goods"
<b>Presentation 2 due Monday Nov 2</b>			
9	Nov 2-6	Moral Reasoning and Allocation Mechanisms <i>discussions</i>	Sandel "Market Reasoning as Moral Reasoning"
10	Nov 9-13	Choice and Markets with Risk	Perloff "Uncertainty"
<b>Assignment 3 due Friday Nov 20</b>			
11	Nov 16-20	Asymmetric information: adverse selection in insurance markets	Lecture notes only
12	Nov 23-27	Asymmetric information: principal-agent	Shy ch 15.1
13	Nov 30-Dec 4	Monopoly and price discrimination	Lecture notes only
<b>Assignment 4 due Monday Dec 7</b>			
<b>Final Assignment due Friday Dec 18</b>			

## **Missed Work and Accommodation Regarding Assessment**

If a student is unable to submit a course assignment for documented reasons, the student's mark will be based upon an adjusted weighting scheme.

## **Penalties and Rules Regarding Late Work**

Assignments and presentations must be submitted on time. No late submissions will be accepted unless an arrangement has been made in advance with the instructor. The Final Assignment will be penalized with a 5% grade reduction per day.

## **Academic Integrity**

In order to maintain a culture of academic integrity, members of the University of Waterloo are expected to promote honesty, trust, fairness, respect and responsibility. Check the [Office of Academic Integrity website](#) for more information.

## **Discipline**

A student is expected to know what constitutes academic integrity to avoid committing an academic offence, and to take responsibility for his/her actions. [Check [the Office of Academic Integrity](#) for more information.] A student who is unsure whether an action constitutes an offence, or who needs help in learning how to avoid offences (e.g., plagiarism, cheating) or about "rules" for group work/collaboration should seek guidance from the course instructor, academic advisor, or the undergraduate associate dean. For information on categories of offences and types of penalties, students should refer to [Policy 71, Student Discipline](#). For typical penalties, check [Guidelines for the Assessment of Penalties](#).

## **Grievance**

A student who believes that a decision affecting some aspect of his/her university life has been unfair or unreasonable may have grounds for initiating a grievance. Read [Policy 70, Student Petitions and Grievances, Section 4](#). When in doubt, please be certain to contact the department's administrative assistant who will provide further assistance.

## **Appeals**

A decision made or penalty imposed under [Policy 70, Student Petitions and Grievances](#) (other than a petition) or [Policy 71, Student Discipline](#) may be appealed if there is a ground. A student who believes he/she has a ground for an appeal should refer to [Policy 72, Student Appeals](#).

## **Accommodation for Students with Disabilities**

**Note for students with disabilities:** [AccessAbility Services](#), located in Needles Hall, Room 1401, collaborates with all academic departments to arrange appropriate accommodations for students with disabilities without compromising the academic integrity of the curriculum. If you require academic accommodations to lessen the impact of your disability, please register with [AccessAbility Services](#) at the beginning of each academic term.

**Turnitin.com and alternatives:** Text matching software (Turnitin®) may be used to screen assignments in this course. Turnitin® is used to verify that all materials and sources in assignments are documented. Students' submissions are stored on a U.S. server. Students that are concerned about their privacy and/or security may arrange with instructor an alternative (e.g., scaffolded assignment or annotated bibliography). Students will be given due notice, in the first week of the term and/or at the time assignment details are provided, about arrangements and alternatives for the use of Turnitin in this course.

It is the responsibility of the student to notify the instructor if they, in the first week of term or at the time assignment details are provided, wish to submit the alternate assignment.

### **Mental Health Support**

All of us need a support system. The faculty and staff in Arts encourage students to seek out mental health support if they are needed.

#### **On Campus**

- Counselling Services: [counselling.services@uwaterloo.ca](mailto:counselling.services@uwaterloo.ca) / 519-888-4567 ext. 32655
- [MATES](#): one-to-one peer support program offered by Federation of Students (FEDS) and Counselling Services
- Health Services Emergency service: located across the creek from Student Life Centre

#### **Off campus, 24/7**

- [Good2Talk](#): Free confidential help line for post-secondary students. Phone: 1-866-925-5454
- Grand River Hospital: Emergency care for mental health crisis. Phone: 519-749-4300 ext. 6880
- [Here 24/7](#): Mental Health and Crisis Service Team. Phone: 1-844-437-3247
- [OK2BME](#): set of support services for lesbian, gay, bisexual, transgender or questioning teens in Waterloo. Phone: 519-884-0000 extension 213

Full details can be found online on the Faculty of Arts [website](#)

Download [UWaterloo and regional mental health resources \(PDF\)](#)

Download the [WatSafe app](#) to your phone to quickly access mental health support information