

**University of Waterloo**  
**Department of Economics**  
**Econ 393 – Section 001**  
**Market Failures**  
**Fall 2021**

**Instructor Information**

Instructor: Ryan George

Email: r22georg@uwaterloo.ca

Office hours: Thursday 11-12:30pm; and another time TBA (Learn Virtual Classroom)

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

**Territorial Acknowledgement**

*We acknowledge that we live and work within the Haldimand Tract, land that was granted to the Haudenosaunee of the [Six Nations of the Grand River](#), and within the traditional territory of the Neutral, Anishinaabe, and Haudenosaunee peoples.*

**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).
- Jeffrey Perloff, *Microeconomics: theory and applications with calculus* Ch. 16 “Uncertainty”
- Elinor Ostrom, “The Challenge of Self-Governance in Complex Contemporary Environments” *The Journal of Speculative Philosophy*, Vol. 24, No.4 (2010), pp. 316-332.
- 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.
- Renee Pendergast, “The concept of freedom and its relation to economic development – a critical appreciation of the work of Amartya Sen” *Cambridge Journal of Economics* Vol.29, (2005), pp.1145-1170.

### Course Requirements and Assessment

Assessment	Date of Evaluation (if known)	Weighting
Assignments (4 @ 7.5% each)	Sept 20, Oct 18, Nov 8, Dec 7	30
Short Essay	Oct 4	15
Recorded presentation	Nov 22	15
Participation in discussion threads	Oct 4-8; Nov 22-26	10
Final Essay	Dec 17	30
Total		100

## 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 Essay

Read the article by Elinor Ostrom, “The Challenge of Self-Governance”. Use the article to write a 3-page (750 word) essay that assesses the following statement, “Self-governance makes a critical and unique contribution to an economy.” Additionally, make use of at least two articles from newspapers, magazines or another professionally edited publication available online in order to introduce real world examples into your essay. Avoid academic journals. Provide full references to the materials used. The essay must **be uploaded to LEARN by midnight on the due date, October 4<sup>th</sup>** .

### Short Presentation

As a member of a group of 4 students, each student will record a presentation to be viewed by two other members of their group and the instructor. Each presentation will offer an answer to the question, “How should market failure be redefined to incorporate concern for social values and the promotion of freedom?”

The presentation should be a slide show with recorded video to accompany it. The presentation should be 6-8 minutes in length. Sharing video of yourself speaking is recommended (but not required), as it reduces the impersonal nature of online coursework. Group members will choose one article of the two following, with a maximum of two students per article,

1. 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.
2. Renee Pendergast, “The concept of freedom and its relation to economic development – a critical appreciation of the work of Amartya Sen” *Cambridge Journal of Economics* Vol.29, (2005), pp.1145-1170.

The presentation must **be uploaded to LEARN by midnight on the due date, November 22<sup>nd</sup>**.

### **Discussion Thread Participation**

During the weeks of October 4-8 and November 22-26, following the submission of the short essay and presentation, respectively, students will spend time reacting to their fellow group members' work through discussion threads. In the first discussion thread you will be asked to comment in a constructive way on the argument of your fellow group members. In the second discussion you should engage each of the members of your group in a debate on the true nature of 'market failure'.

### **Final Essay**

The final essay will require students to reflect on the models studied in the course, engage with the debates linked to presentations and discussions, and examine some real-world considerations. The essay will be 4-5 pages (1000-1250 words) in length. Turnitin matching software will be used to ensure written answers reflect individual student work (see more below). It is **due by submission to the dropbox by midnight on December 17<sup>th</sup>**.

## Course Schedule

	Date	Lecture Topic	Readings Due
1	Sept 8-10	Review of choice and markets	
2	Sept 13-17	Introduction to Externalities	Nechyba Ch.21
<b>Assignment 1 Monday, Sept 20</b>			
3	Sept 20-24	Production Externalities: pollution	Nechyba Ch.21 "Externalities"
4	Sept 27-Oct 1	Production Externalities: common property resources	Nechyba Ch.21
<b>Short Essay due Monday, Oct 4</b>			
5	Oct 4 – Oct 8	Self-Governance <i>discussion</i>	
6	Oct 11-15	Reading Week – No Classes	Nechyba Ch.21
<b>Assignment 2 due Monday, Oct 18</b>			
7	Oct 18-22	Consumption externalities and missing markets	Nechyba Ch.21
8	Oct 25-29	Consumption externalities and missing markets	Nechyba Ch.21
9	Nov 1 - 5	Consumption externalities and missing markets	Nechyba Ch.21
<b>Assignment 3 due Monday, Nov 8</b>			
10	Nov 8-12	Public goods	Varian Ch.36 "Public Goods"
11	Nov 15-19	Choice and Markets with Risk	Perloff "Uncertainty"
<b>Presentation due Monday, Nov 22</b>			
12	Nov 22-26	Values and Freedom <i>discussion</i>	
13	Nov 29-Dec 3	Asymmetric information: adverse selection in insurance markets	Lecture notes only
<b>Assignment 4 due Tuesday Dec 7</b>			
14	Dec 6-7	Asymmetric information: adverse selection in insurance markets	Lecture notes only
<b>Final Essay due Friday, Dec 17</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 1% 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