

University of Waterloo
Department of Economics
Econ 393 – Section 001
Market Failures
Winter 2022

Instructor Information

Instructor: Ryan George

Email: r22georg@uwaterloo.ca

Office hours: Monday and Wednesday 1-2pm (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* 8th ed. Ch. 36 “Public Goods” (NY: WW Norton, 2010).
- Jeffrey Perloff, *Microeconomics: theory and applications with calculus* Ch. 16 “Uncertainty”
- Oz Shy, “Monitoring, Management, Compensation and Regulation”, Chapter 15 in *Industrial Organization: Theory and Applications* (Cambridge Mass: MIT Press, 1995).

Course Requirements and Assessment

Assessment	Date of Evaluation (if known)	Weighting
Assignments (5 @ 10% each)	Jan 21, Jan 28, Feb 18, Mar 11, Apr 4	50
Short Essay 1	Feb 7	16
Short Essay 2	Mar 21	16
Short Essay 3	Apr 14	18
Total		100

Assignments

There will be **FIVE** 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 1

Read the following article,

Elinor Ostrom, "The Challenge of Self-Governance in Complex Contemporary Environments" *The Journal of Speculative Philosophy*, Vol. 24, No.4 (2010), pp. 316-332.

Assess Ostrom's lessons described in the article in a 3-page (750 word) essay. As part of your essay use of at least two *non-academic* articles (use professionally edited magazines or newspapers) that give contrasting outcomes for self-governance in **one of the following** common property resources: fisheries, forestry, or water supply.

Provide full references to the materials used. The essay must **be uploaded to LEARN by midnight on the due date, Feb 7.**

Short Essay 2

Read the following article,

Jeffrey H. Dyer and Wujin Chu, "Transaction Costs and Improving Performance: Empirical Evidence from the United States, Japan, and Korea" *Organization Science* Jan-Feb. 2003, 14(1), pp. 57-68.

In an essay of 3-pages (750 words) critically present the argument of the article, and assess the relevance of a 'trust and transaction costs' approach for the models of externalities presented in lectures. The essay must **be submitted to LEARN by midnight on the due date, March 21.**

Short Essay 3

Read the following article,

Bruno S. Frey, "On the relationship between intrinsic and extrinsic work motivation", *International Journal of Industrial Organization* 15(1997), pp.427-439.

In an essay of 3-pages (750 words) critically present the argument of the article, and compare the analysis to reporting on work place motivation in at least two non-academic articles (use professionally edited magazines or newspapers). The essay must **be submitted to LEARN by midnight on the due date, April 14.**

Course Schedule

	Date	Lecture Topic	Readings Due
1	Jan 5 - 7	Introduction to course; review	
2	Jan 10 – 14	Review of choice and markets	
Assignment 1 Friday, Jan 21			
3	Jan 17 – 21	Monopoly	
Assignment 2 Friday, Jan 28			
4	Jan 24 – 28	Introduction to Externalities: pollution	Nechyba Ch.21
5	Jan 31 - Feb 4	Production Externalities: common property resources	Ostrom et al. "Covenants with and without a sword"
Essay 1 due Monday, Feb 7			
6	Feb 7 – 11	Consumption externalities and missing markets	Nechyba Ch.21
7	Feb 14 – 18	Consumption externalities and missing markets	Nechyba Ch.21
Assignment 3 due Friday, February 18			
8	Feb 21 – 25	No classes – Reading Week	
9	Feb 28 - Mar 4	Public goods	Varian Ch.36 "Public Goods"
Assignment 4 due Friday, March 11			
10	Mar 7 – 11	Choice and Markets with Risk	Perloff "Uncertainty"
11	Mar 14 – 18	Asymmetric information: adverse selection in insurance markets	Lecture notes only
Essay 2 due Monday March 21			
12	Mar 21 – 25	Asymmetric information: adverse selection in insurance markets	Lecture notes only
13	Mar 28 -Apr1	Asymmetric information: principal agent problems in firms	Oz Shy, "title"
Assignment 5 due Monday Apr 4			
14	Apr 4-5	Asymmetric information: principal agent problems in firms	Oz Shy, "title"
Essay 3 Thursday Apr 14			

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 must be submitted on time. No late submissions will be accepted unless an arrangement has been made in advance with the instructor. The essays 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 / 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