

Course title: Fundamental Paradigms of Economics and the Concepts practice of Economic Regulation				
Course code: PPS 146	No. of credits: 4	L-T-P: 32-10-00	Learning hours: 42	
Pre-requisite course code and title (if any): None				
Department/Centre: Department of Policy Studies				
Course coordinator(s): Dr. Debdatta Saha		Course instructor(s): Dr. Debdatta Saha		
Contact details:				
Course type: Core		Course offered in: Semester 2		
Course description The aim of this course is to give mid-career government officials an introduction to the different paradigms in economics, with a specific focus on integrating theory with case studies and applications. Students are given a brief overview of the theory of incentives, which underlies much of the theory of economic regulation. The course would highlight the choice of regulatory institutions for various market failures and inter-linkages between the regulator and other institutions (the government and the judiciary). The role of the government as a facilitator to address market failure, apart from direct regulation, would also be discussed. Alongside the theory, students are given an exposure to the actual practice of these concepts by practitioners for most topics. For students who need some revision of basic mathematical tools used in economics, there is an optional set of remedial classes at the beginning of the course.				
Learning objectives:				
<ul style="list-style-type: none"> • To give an introduction to the different paradigms in economics, with a specific focus on integrating theory with case studies and applications. • To highlight the choice of regulatory institutions for various market failures and inter-linkages between the regulator and other institutions (the government and the judiciary) • To an exposure to the actual practice of these concepts by practitioners for most topics. 				
Course content				
Module	Topic	L	T	P
1	Remedial Lectures: <ul style="list-style-type: none"> • <i>Revision of basic calculus and mathematics for economics (not compulsory for all students)</i> 	4	0	
2	Introduction: <i>Paradigms in economics:</i> <ul style="list-style-type: none"> • <i>Marxian theory of value</i> • <i>Utilitarianism: cardinal vs. ordinal, von-Neumann Morgenstern utility representations</i> • <i>Behavioral economics: bounded rationality, satisficing (example of choice of pension fund)</i> • <i>Evolutionary models in economics (examples from coordination problems in economics)</i> 	3	0	
3	Economics of perfect competition: <ul style="list-style-type: none"> • <i>Theory of consumer behavior</i> • <i>Theory of the firm</i> • <i>Market structures:</i> <ul style="list-style-type: none"> ○ <i>Perfect Competition</i> ○ <i>Market failure: what happens when the assumptions of competition do not hold</i> ○ <i>Government failure</i> 	4	2	

4	<p>Relaxing the assumptions of perfect competition: Monopoly, Monopsony and Oligopolies</p> <ul style="list-style-type: none"> • <i>Relaxing the assumption of atomistic agents: monopoly, monopsony and oligopolistic markets</i> • <i>Elements from the theory of public choice and regulation:</i> <ul style="list-style-type: none"> • <i>Regulation of natural monopolies</i> • <i>Politics of regulation and regulatory capture</i> • <i>Game theoretic models for explaining oligopolistic interactions</i> • Case study: The Competition Act of India, 2002: lecture by an official from the Competition Commission of India 	3	1	
5	<p>Relaxing the assumptions of perfect competition: Entry and Exit Barriers</p> <ul style="list-style-type: none"> • <i>Introducing entry and exit barriers in the market</i> • <i>Examples of strategic entry barriers erected by oligopolists (examples of tying arrangements with case studies from the Competition Commission of India case filings)</i> • <i>Examples of government imposed entry barriers through licencing</i> • <i>Case studies: License fees as entry barriers (particularly</i> 	3	1	
6	<p>Relaxing the assumptions of perfect competition: Transaction Costs</p> <ul style="list-style-type: none"> • <i>Introducing the importance of transaction costs</i> • <i>Examples: Costs of underwriting for IPOs</i> • <i>Methods of reducing transaction costs: economics of memberships in trade unions, economics of franchising and leasing</i> 	3	1	
7	<p>Relaxing the assumptions of perfect competition: Increasing Returns to Scale</p> <ul style="list-style-type: none"> • <i>Introducing increasing returns to scale</i> • <i>Example: Returns to scale in electricity supply</i> • Case study: Lecture by officials from the Central Electricity Regulatory Authority 	3	1	
8	<p>Relaxing the assumptions of perfect competition: Non-homogeneous Products</p> <ul style="list-style-type: none"> • <i>Non-homogenous product markets and the law of one price: example of freight-on-board prices in international trade</i> • Case study: Talk by faculty from IIFT on non-homogenous products and international trade 	2	1	
9	<p>Relaxing the assumptions of perfect competition: Imperfect Information</p> <ul style="list-style-type: none"> • <i>Introducing the theory of incentives:</i> <ul style="list-style-type: none"> • <i>Information problems and the design of economic incentives</i> <ul style="list-style-type: none"> • <i>Moral hazard and adverse selection problems</i> • <i>Regulation under asymmetric information: yardstick competition</i> • Case study: Talk by officials from the Department of 	3	1	
10	<p>Relaxing the assumptions of perfect competition: Introducing Externalities</p> <ul style="list-style-type: none"> • <i>Introducing the notion of externalities</i> • Case studies: Environmental taxes, such as a pollution tax: lecture by an official from the MoEF 	2	1	

11	The theory of contestable markets: <i>Shifting the focus from assumptions supporting competition to competitive outcomes</i>	2	1	
TOTAL		32	10	

Evaluation Criteria:

1 term paper: 50%

1 major test (end semester): 50%

Learning outcomes:

The expected learning outcome is that the student would be able to apply some of the concepts taught in class to real-life problems/ decision-making in their sphere of work.

Reading materials

1. Varian, H. R., *Intermediate Microeconomics: A Modern Approach*, 6th Edition, 2003, Affiliated East- West Press.
2. Ferguson, C. E and Gould, J.P., *Microeconomic Theory*, Homewood, III. : R. D. Irwin, 1975
3. Levitt, S. D., and Dubner, S. J., *Freakonomics: A Rogue Economist Explores the Hidden Side of Everything*, Harper Collins, 2005
4. Cassidy, J., *How Markets Fail: The Logic of Economic Calamities*, Farrar, Straus and Giroux, 2009

Important web-based resources:

1. The Competition Commission of India website at: www.cci.gov.in
2. Central Electricity Regulatory Commission of India: <http://www.cercind.gov.in/>
3. Department of Telecommunication: <http://www.dot.gov.in/>
4. Finance Commissions of India (currently Fourteenth Finance Commission): <http://fincomindia.nic.in/>
5. Ministry of Finance: finmin.nic.in

Additional readings (Topic-wise)

Additional readings will be provided for each topic during the course.

Course reviewers:

1. Dr. Sudipto Mundle, Emeritus Professor, National Institute of Public Finance and Policy
2. Dr. Indrani Roy Chowdhury, Associate Professor, Department of Economics, Jamia Millia University