

THE UNIVERSITY OF HONG KONG  
FACULTY OF BUSINESS AND ECONOMICS  
**ECON 2275: THE POLITICAL ECONOMY OF LAW AND PUBLIC POLICY**  
**Second Semester 2022-2023**

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**Course Logistics:**

Class Schedule: Saturday mornings.

Classroom: **KB 223 (Knowles Building)**

We use a course management system MOODLE. Please login to your HKU Portal account to access MOODLE.

Professor Y C R Wong's PowerPoint slides will be available online as the class progresses. Class time will be devoted to discussing key issues to deepen and broaden our understanding of the material. The first class-period will also be used to explain how Moodle works.

Dr. Vera Yuen will conduct the term paper class on how to prepare the proposal and fulfil the requirements of the term paper on 18 Feb 2023. Attendance is expected.

**Description:**

The course provides a theoretical and empirical understanding the political economy of law and public policy making, examines how law and regulation affects with policy outcomes, and familiarizes students with economic concepts and tools useful for analyzing policy issues. Topic covered include, public goods, externalities, monopolies, regulation, rent seeking, law and

economics, law enforcement, legal systems and public bureaucracy.

**Aims:**

1. To provide a theoretical and empirical understanding of the political economy of law and public policy;
2. To study in depth the concepts of public goods, externalities, monopolies, regulation, rent seeking, law enforcement, law and economics, public bureaucracy, and political business cycles to gain a good understanding political economic analysis;
3. To familiarize students with the applications of political economic analysis to analyze important policy issues.

**Prerequisite:**

Students should have studied introductory microeconomics (i.e. ECON1210 Introductory Microeconomics). Students who want to waive the prerequisite may contact Dr. Vera Yuen to discuss.

**Course Intended Learning Outcomes (CILOs)**

Upon completing this course, students should be able to:

- CILO1 Enhance theoretical and empirical understanding of the application of political economic analysis to public policy issues.
- CILO2 Learn to apply economic concepts to the study of politics as a form of non-market behavior;
- CILO3 Develop the critical ability to analyze the differences between the political economic approach to public policy with a purely economic approach;
- CILO4 Develop analytical thinking through analyzing the intended and unintended effects of public policy choices on policy outcomes using rigorous analytical tools.

**Alignment of program ILOs and course ILOs Teaching and Learning Activities (TLA)**

<b>Program ILOs</b>	<b>Course ILOs</b>
Acquisition and internalization of knowledge of economics & finance	CILO1, CILO2, CILO3, CILO4
Application and integration of knowledge	CILO1, CILO3, CILO4
Developing global outlook	CILO1, CILO2, CILO3, CILO4
Mastering communication skills	CILO3, CILO4

TLA1	Lecture	Instructor will give lectures on major concepts and issues.
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TLA2	Discussion	Instructor will organize classroom discussions
TLA3	Consultation	Instructor holds weekly consultation hours to answer students' questions and through an e-learning platform Moodle.

**Alignment Among Course Intended Learning Outcome, Teaching and Learning Activities and Assessment Tasks:**

Learning Outcome	Teaching and learning activity (TLA)	Assessment Tasks
CILO1	TLA1, TLA2, TLA3	Written Paper and Final Exam
CILO2	TLA1, TLA2, TLA3	Written Paper and Final Exam
CILO3	TLA1, TLA2, TLA3	Written Paper and Final Exam
CILO4	TLA1, TLA2, TLA3	Written Paper and Final Exam

**Course Assessment:**

There are two assessment requirements for this course: (1) a written final exam (50%) covering topics taught in the course conducted at times indicated above on page 1, and (2) a written paper of 1500 words as coursework (50%). The course grade 100% is determined as the sum of two assessment requirements.

**Written Paper**

The written paper should examine in depth a specific topic studied in the course. It should be a thoughtful examination of a topic discussed in this course based on the materials assigned in the reading list. There is NO need to consult additional reading materials. Students should NOT submit a piece of work that is also being submitted to another course. Here are some good approaches:

- (1) Write a review of one of the topics learned in this course.
- (2) Compare and contrast the analysis between two topics on a related subject.
- (3) Write on a topic that is discussed in several assigned books or papers.
- (4) A policy paper studying a specific policy in a jurisdiction.
- (5) Consult with Dr. Vera Yuen for advice in deciding on a topic.

The final written paper is due on **14 May 2023**. Late submissions will NOT be accepted. A precise

word count must be given at the end of the paper. Footnotes and references should be placed at the end of the paper so that they can be excluded from the word count. Appendices are not necessary and not appropriate for papers of such a short length and should not be submitted. It is advisable to seek English language assistance if needed to ensure that your paper is clear.

Students must submit a half-page proposal of the paper they intend to write. The deadline for submitting the proposal is **5 March 2023**. Late submissions will not be allowed. Students should include in the proposal the title of the project and a short summary of the subject they will investigate.

Students are also encouraged to submit optionally a first draft of the final paper for the instructor to provide feedback, but this is optional, not mandatory. If students choose to submit a first draft, they must do so on **9 April 2023**. Your grade on the paper will depend only on your final paper, and not your draft. Your draft has to be a complete one and with full citations (to avoid plagiarism). Otherwise, it will be returned without marking. Your grade on the paper will depend only on your final paper, and not your draft. However, plagiarism is not allowed for both draft and final submission. Penalty will be imposed for both cases.

Students can make a late submission if they wish to have their drafts marked but pass the deadline; a late penalty will be imposed on their final grade without saying. Other than submitting on Moodle, any act of sending out a draft after the deadline asking for detailed feedback will be considered as an act of late submission.

If you submit a written paper, **but DID NOT submit a proposal or the proposal was NOT APPROVED**, then you will **FAIL this part of the assessment**.

Therefore, deadlines to be observed:

Proposal (mandatory) submission — 5 March 2023

First draft (optional) submission — 9 April 2023

Final paper submission — 14 May 2023

The proposal and paper(s) must be submitted electronically via MOODLE.

### **Standards of Assessment**

Grade	Criteria and Standards
Course Level Grade Descriptors	
A+, A, A-	Show superior grasp of all aspects of the course and demonstrate strong evidence of original thinking and evidence of extensive knowledge base in the subject area.

B+, B, B-	Show reasonable grasp of the key aspects of the course and demonstrate good evidence of original thinking and evidence of reasonable knowledge base in the subject area.
C+, C, C-	Show acceptable coverage of most aspects of the course, and demonstrate some evidence of original thinking and evidence of acceptable knowledge base in the subject area.
D+, D	Show marginal coverage of some aspects of the course, and demonstrate marginal evidence of original thinking and evidence of marginal knowledge base in the subject area.
F	Failure to identify and address any main theme and issue. No critical engagement with any issue, little mentioning and application of relevant concepts and theories, and with inaccuracies when doing so. Demonstrates a lack of understanding of existing arguments relevant to the topic.

### **Academic Conduct**

1. The University Regulations on academic dishonesty will be strictly enforced! Please check the University Statement on plagiarism on the web: <http://www.hku.hk/plagiarism/>
2. Academic dishonesty is behavior in which a deliberately fraudulent misrepresentation is employed in an attempt to gain undeserved intellectual credit, either for oneself or for another. It includes, but is not necessarily limited to, the following type of case:
  - a. Plagiarism - The representation of someone else's ideas as if they are one's own. Where the arguments, data, designs, etc., of someone else are being used in a paper, report, oral presentation, or similar academic project, this fact must be made explicitly clear by citing the appropriate references. The references must fully indicate the extent to which any parts of the project are not one's own work. Paraphrasing of someone else's ideas is still using someone else's ideas, and must be acknowledged.
  - b. Unauthorized Collaboration on Out-of-Class Projects - The representation of work as solely one's own when in fact it is the result of a joint effort. Where a candidate for a degree or other award uses the work of another person or persons without due acknowledgement:
    - The relevant Board of Examiners may impose a penalty in relation to the seriousness of the offence;
    - The relevant Board of Examiners may report the candidate to the Senate, where there is *prima facie* evidence of an intention to deceive and where sanctions beyond those in (1) might be invoked.

### **Course Syllabus :**

#### **Reading List**

1. METHODOLOGY OF ECONOMICS

\*Milton Friedman, "The Methodology of Positive Economics", In *Essays in Positive Economics*, (Chicago: Univ. of Chicago Press, 1966), pp. 3-16, 30-43.

Gary S Becker, "Irrational Behaviour and Economic Theory," *Journal of Political Economy*, Vol. 70, No. 1, 1962, pp. 1-13.

Frank Knight, *Risk, Uncertainty and Profit*, University of Chicago Press, 1971, Ch. 9 -10, pp. 264-312.

Friedrich A. von Hayek, "The Use of Knowledge in Society," *American Economic Review*, 1945, 35(4), pp. 519-530.

## 2. PUBLIC GOODS AND EXTERNALITIES

\*Dennis Mueller, *Public Choice III*, Cambridge University Press, 2003, chap 2-3.

\*Ronald Coase, "The Problem of Social Cost", *The Journal of Law and Economics*, 1960, 3, pp. 1-44.

## 3. LEGAL REASONING AND LEGAL ORIGINS

\*Edward H. Levi, *An Introduction to Legal Reasoning*, University of Chicago Press, pp. 1-8, 102-104.

Edward Glaeser and Andrei Shleifer, "Legal Origins", *Quarterly Journal of Economics*, Vol. 117, No. 4, 2002, pp. 1193-1229.

Rafael La Porta, Florencio Lopez-De-Silanes, and Andrei Schleifer. "The Economic Consequences of Legal Origins," *Journal of Economic Literature*, 46:2, 2008, pp. 285-332.

## 4. ECONOMIC ANALYSIS OF LAW

\*A Mitchell Polinsky, *An Introduction to Law and Economics*, 5th edition, Little Brown, 2020.

James Buchanan, "Law as Public Capital," *The Limits of Liberty: Between Anarchy and Leviathan*, University of Chicago Press, 1975, pp. 107-129.

## 5. VOTING WITH YOUR FEET

\*Dennis Mueller, *Public Choice III*, Cambridge University Press, 2003, chap 9.

\*Albert O Hirschman, *Exit, Voice and Loyalty*, Harvard University Press, 1970.

\*Charles M. Tiebout, "An Economic Theory of Fiscal Decentralization", *Public Finances: Needs, Sources, and Utilization*, National Bureau of Economic Organization, 1961, pp. 79-96

Keith Dowding, Peter John and Stephen Biggs, "Tiebout: A Survey of the Empirical Literature", *Urban Studies*, Vol. 31, Nos. 4/5, 1994, pp. 767-797

## 6. RENT SEEKING AND COLLECTIVE ACTION

\*Dennis Mueller, *Public Choice III*, Cambridge University Press, 2003, chap 15.

\*Mancur Olson, *The Logic of Collective Action*, Harvard University Press, 1965, pp. 1-65.

\*Gordon Tullock, "The Welfare Costs of Tariffs, Monopolies and Theft," *Western Economic Journal*, 1967, pp. 224-32.

\*Gordon Tullock, *Rent Seeking*, The Shaftesbury Papers 2, Locke Institute, Edward Elgar Publishing Ltd., 1993.

Anne O. Krueger. "The Political Economy of the Rent-Seeking Society," *American Economic Review*, 1974, pp.291-303.

\*George Stigler, "Director's Law of Public Income Redistribution," ed., *Chicago Studies in Political Economy*, University of Chicago Press, 1988, pp.106-115.

## 7. MONOPOLY AND BARRIERS TO ENTRY

\*Arnold Harberger, "Monopoly and Resource Allocation," *American Economic Review*, May 1954, pp.77-87.

\*Harold Demsetz, "Purchasing Monopoly," in D C Colander, ed., *Neoclassical Political Economy*, Ballinger, 1984. Reprinted in his *Efficiency, Competition and Policy*, Basil Blackwell, 1989, pp. 155-167.

\*Harold Demsetz, "Two Systems of Belief about Monopoly," in *Industrial Concentration, the New Learning*, Little Brown, 1974. Reprinted in his *Efficiency, Competition and Policy*, Basil Blackwell, 1989, pp. 91-111.

\*Harold Demsetz, "Why Regulate Utilities," *Journal of Law and Economics*, April 1968.

\*Paul Rubin, "What Do Economists Think About Antitrust? A Random Walk down Pennsylvania Avenue," in F S McChesney and W F Shughart II, ed., *The Causes and Consequences of Antitrust*, University of Chicago Press, 1995, pp. 33-62.

## 8. THE CAPTURE THEORY OF REGULATION

George Stigler, "The Economists' Traditional Theory of the Economic Functions of the State," *The Citizen and the State*, University of Chicago Press, 1975, pp. 103-113.

George Stigler, "Regulation: The Confusion of Means and Ends," *The Citizen and the State*, pp. 167-177.

\*George Stigler, "The Theory of Economic Regulation," *Bell Journal of Economics*, Spring 1971, pp. 3-21.

\*Fred McChesney, "Rent Extraction and Rent Creation in the Theory of Economic Regulation," *Journal of Legal Studies*, 1987, pp. 101-118.

\*SNS Cheung, "A Theory of Price Control," *The Journal of Law and Economics*, vol. 17, No. 1, pp. 53-71.

\*Fred McChesney, "Of Stranded Costs and Stranded Hopes: The Difficulties of Deregulation," *The Independent Review*, 1999, 3(4), pp. 485-509.

## 9. COURT FAILURES AND REGULATION

\*Andrei Shleifer, "Understanding Regulation," *European Financial Management*, 2005, 11(4), pp. 439-451.

Andrei Shleifer, "Efficient Regulation," *NBER Working Paper No. 15651, January 2010*

Djankov, Simeon, Rafael La Porta, Florencio Lopez-de-Silanes, and Andrei Shleifer. "The Regulation of Entry," *The Quarterly Journal of Economics* 117, no. 1 (2002): 1-37.

## 10. REGULATION OF HOUSING AND LAND

\*Edward L. Glaeser and Joseph Gyourko, "The Impact of Building Restrictions on Housing Affordability," *Federal Reserve Bank of New York, Economic Policy Review*, June 2003

\*Edward L. Glaeser and Joseph Gyourko, "The Impact of Zoning on Housing Affordability," *NBER Working Paper Series*, March 2003

\*Edward L. Glaeser, Joseph Gyourko, and Raven E Saks, "Why Have Housing Prices Gone Up?" *American Economic Review*, vol. 95, May 2005, pp. 329-333

\*Edward L. Glaeser, Joseph Gyourko, and Raven E Saks, "Why Is Manhattan So Expensive? Regulation and the Rise in Housing Prices," *The Journal of Law & Economics*, Vol. 48, No. 2 (October 2005), pp. 331-36

\*Y C R Wong, "Land Administration and Practice in the New Territories of Hong Kong," *International Symposium on Land and Development*, June 19-20, 2015, University of Chicago Center in Beijing. 16 pages.

\*YCR Wong and PW Liu, "The Distribution of Benefits among Public Housing Tenants in Hong Kong and Related Policy Issues," *Journal of Urban Economics*, Vol. 23, No. 1, January 1988, pp. 1-20.

YCR Wong, *On Privatizing Public Housing*, City University of Hong Kong Press, Hong Kong, 1998, 151 pages.



\*YCR Wong, *Hong Kong Land for Hong Kong People: Fixing the Failures of Our Housing Policy*, Hong Kong University Press, Hong Kong, January 2015, 219 pages.

## 11. PUBLIC BUREAUCRACY (Optional)

Dennis Mueller, *Public Choice III*, Cambridge University Press, 2003, chap. 16, 21- 22

Ronald Coase, "The Nature of the Firm," *Economica, New Series*, 1937, 4(16), pp. 386-405.

Armen A. Alchian and Harold Demsetz, "Production, Information Costs, and Economic Organization," *American Economic Review*, 1972, 62(5), pp. 777-795.

Jensen, Michael C. and William H. Meckling, "Theory of the firm: Managerial Behavior, Agency Costs and Ownership Structure," *Journal of Financial Economics*, October 1976. 3 (4): 305–360.

Lazear, Edward P. "Why Is There Mandatory Retirement?" *Journal of Political Economy* 87, no. 6 (1979): 1261-284.

## 12. CHALLENGES IN THE TWENTY-FIRST CENTURY

\*Richard Baldwin. *The Great Convergence Information Technology and the New Globalization*. Belknap Press, 2016 (Summary in 5 pages).

\*Richard Baldwin. *The Globotics Upheaval Globalization, Robotics, and the Future of Work*, Oxford University Press, 2019 (Summary in 5 pages and Review in 3 pages).

\*Thomas Philippon. *The Great Reversal: How America Gave Up on Free Markets*. Belknap Press, 2019 (Book review by Martin Wolf in 7 pages).

Branko Milanovic. *Capitalism Alone: The Future of the System That Rules the World*, Belknap Press, 2019 (Summary in 6 pages).

Paul Collier. *The Future of Capitalism: Facing the New Anxieties*, Harper, 2018 (Summary by Thomas A. Hemphill, *Cato Journal* Spring/Summer 2019).

Raghuram G. Rajan. *The Third Pillar: How Markets and the State Leave the Community Behind*, Penguin Press, 2019 (Summary in 10 pages).

\*Carl Benedikt Frey. *The Technology Trap: Capital, Labour and Power in the Age of Automation*. Princeton University Press, 2019 (Book review in 7 pages and 3 pages).

\*Matthew C Klein and Michael Pettis, *Trade Wars are Class Wars: How Rising Inequality Distorts the Global Economy and Threatens International Peace*, Yale University Press, 2020 (Book review by Martin Wolf in 9 pages).