

ECONOMIC POLICY IN THE UK

Module Overview

Teaching Format

2 hours of lectures or seminars per week for 20 weeks.

Lecture times and locations:

Term 1: Mondays 12-1 (PS1.28)
 Wednesdays 11-12 (S0.19)

Seminars (Term 1): Week 6
 Week 10

Assessment

3-hour summer examination (80%)

New regulation this year: Must choose 1 question from each of Sections A and B.

Each of Sections A and B have 4 questions. Section A is Macro (i.e. Term 1) and Section B is Micro (i.e. Term 2).

2 x 2,000-word essays (10% per essay)

Essay deadlines: Assessment 1 – Tuesday 28 November 2006 (Week 10, Term 1)
 Assessment 2 – Wednesday 25 April 2007 (Week 21, Term 3)

Academic Aims

The module aims to develop students' ability to analyse what is happening in the UK economy. Both macroeconomic and microeconomic issues are considered. The module aims to use and build on ideas from core second-year modules.

Learning Objectives

By the end of the module students will have achieved a quantitative and qualitative understanding of current policy issues. Students will have developed the skills to critically analyse current and possible policy developments. Students will have acquired knowledge of current events including trends and developments in economic data, policy institutions and legislation, and theoretical and econometric models of policy and policy outcomes.

Learning Methods

The teaching process combines lectures and informal student-led class discussions. The module is one in which student participation and discussion are encouraged at all times. Students will be assessed by a combination of examination and coursework in which they will be required to demonstrate acquired analytical skills, policy and factual knowledge. Because the module covers different aspects of policy, there is in practice some scope for students to focus their attention on particular elements of the module according to their personal interests. However, some elements overlap and assessment may reflect this.

Lecturers

Jennifer Smith	jennifer.smith@warwick.ac.uk	S2.125
	Office hours: Mon 1-2pm and Wed 12-1pm	
Jonathan Cave	J.A.K.Cave@warwick.ac.uk	S2.98
Chris Doyle	chris.doyle@wbs.ac.uk	Business School (see www.cdoyle.com for details)

Syllabus

Macroeconomic Policy (Jennifer Smith)

Weeks 1-10

See <http://www2.warwick.ac.uk/fac/soc/economics/ug/modules/3rd/ec307/details/#notes> for further details.

This part of the module focuses on aspects of macroeconomic policy, with emphasis on its conduct in the UK. This module component will focus on current policy issues, and will consider the development of current policy thinking in the light of recent experience. Topics covered include UK monetary policy and European Monetary Union.

The topics for this part of the module are as follows:

- The Current Macroeconomic Policy Regime: How did we get here? How successful has it been? Alternatives?
- Designing an Inflation Target: Experience and Theory
- The Costs of Inflation and the Optimal Rate of Inflation: What is the ideal inflation target and how should we design policy to minimise costs?
- How important is Forecasting in the current policy regime?
- Central Bank Independence: Theory and Experience
- Monetary Policy Transmission: How does monetary policy affect the real economy?
- Monetary policy in EMU
- Fiscal policy in EMU
- The UK and EMU

Reading:

Bofinger, P. (2001), *Monetary Policy*, Oxford University Press.

de Grauwe, P. (2005) *The Economics of Monetary Integration* (6th edn), Oxford University Press.

www.bankofengland.co.uk

www.hm-treasury.gov.uk

Recent issues of the *Economist*, the *Financial Times*, *Bank of England Inflation Report*

Public Procurement (Jonathan Cave) (Weeks 11-15)

See <http://www2.warwick.ac.uk/fac/soc/economics/staff/faculty/cave/ec307/> for further information (currently relates to 2005-06).

Public procurement has recently risen to the top of the policy agenda for a host of reasons including the well-publicised failures of major IT and defence equipment procurements, the competitive and industrial implications of EU Procurement Directives, and increasing tendency to privatise or contract out major public goods such as education, health and prisons, etc. This part of the module will focus on 4 issues:

- Procurement arrangements – the design of procurement contracting tendering, etc. to cope with the fact that the purchaser has less information than would-be suppliers, cannot monitor their efforts and may become dependent on them. These issues are sketched in the Introduction to J-J Laffont and J. Tirole, *A Theory of Incentives in Procurement and Regulation* MIT Press, or R. Rob (2001) “The Design of Procurement Contracts” in *The Economics of Defence*. Vol. 2: 280-91 (Elgar Reference Collection. International Library of Critical Writings in Economics, vol. 128.). The National Audit Office report “Modernising Procurement” also has a useful overview (http://www.nao.gov.uk/publications/nao_reports/9899808.pdf)
- Procurement and competition – the competition policy implications of government purchasing. Initial readings include “Procurement Markets” in the *OECD Journal of Competition Law and Policy* 1999, vol. 1, no. 4, pp. 83 – 123, or S. Vagstad (1995) “Promoting fair competition in public procurement”, *Journal of Public Economics*. vol. 58, no. 2: 283-309. An EU- orientated summary can be found at http://www2.warwick.ac.uk/fac/soc/economics/staff/faculty/cave/publications/compet_procure.pdf. Two other very useful references are the EC Procurement Directives (see http://europa.eu.int/comm/internal_market/publicprocurement/index_en.htm) and the WTO guidelines (see http://www.wto.org/english/tratop_e/gproc_e/gproc_e.htm).
- Alternatives: partnerships, contracting-out – instead of buying goods and services to produce ‘public goods’ government may choose to assign the responsibility for service delivery to an outside partner or to enter into public-private partnership. These are used for difficult situations (hospitals, schools, prisons) and for situations involving substantial investment and/or risk (e.g. the Channel Tunnel, London Underground). ‘Official’ starting points include the Office of Government Commerce (www.ogc.gov.uk), the Office of the Deputy Prime Minister (www.odpm.gov.uk) and (for a sceptical view) the National Audit Office (www.nao.gov.uk).
- Procurement and innovation(example: “launching customer” initiatives using government procurement to jump start investment and private markets) : references to be added, but starting points are Chapter 5 of the DTI Innovation report (<http://www.dti.gov.uk/innovationreport/chapter5.pdf>), and http://www2.warwick.ac.uk/fac/soc/economics/staff/faculty/cave/publications/pp_for_rd.pdf.

Each topic will be covered in approximately 2 lectures; specific readings and notes will be made available beforehand.

Competition Policy: Theory and Practice (Chris Doyle)

Weeks 16-20

See <http://www.cdoyle.com/teaching/intro.html> for further information (currently relates to 2005-06).

This part of the module will comprise eight lectures and two class seminars. The lectures will introduce and discuss key microeconomic concepts used in competition analysis. You will acquire an understanding of competition policy, from both a theoretical and practical perspective. The course requires a familiarity with intermediate microeconomics.

The following book deals with much of the material to be covered on the course:

Massimo Motta (2004) *Competition Policy: Theory and Practice*, Cambridge. Warwick University Library catalogue reference HN 4700.M6

Other readings will be provided at the beginning of the course.

Course contents:

- Introduction to competition policy: institutions and concepts
- Market definition
- Market definition, competition problems and two-sided markets
- Dominance and market power
- Joint dominance and tacit collusion
- Vertical issues
- Predatory pricing and margin squeeze
- Bundling and tying
- Seminars (two cases to be determined)