

# Policy Analysis

it's the institutions  
that need adjusting

1

---

---

---

---

---

---

---

---

---

---

## What's a good change?

- If the change is for a single period,  
 $\Delta NB > 0$  is good (static improvement)
- If the change is for a multiple periods,  
 $NPV > 0$  is good (dynamic improvement)

2

---

---

---

---

---

---

---

---

---

---

## "surplus" terminology

- Consumer & producer surpluses are  
alternative terms for identifying net  
benefits
- we will merely use "net benefits" to  
capture both consumer-side and  
producer-side net effects

3

---

---

---

---

---

---

---

---

---

---

often written as  
 $\Delta NB_t$ , since ..

$$NPV = \sum_{t=0}^T \frac{NB_t}{(1+d)^t}$$

4

So, it boils down to  
being able to compute

$$\Delta NB,$$

possibly for many periods.

"conceptually simple"

5

## Policy Types

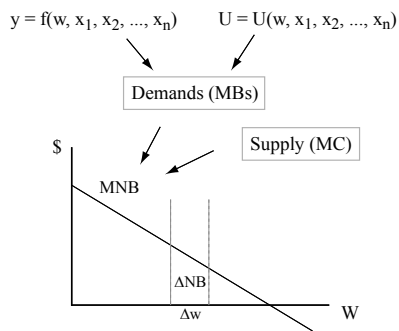
- price changes
- quantity changes
- demand shifting
- supply shifting

Often occurring together.

6



## Direct Benefits:



10

## Secondary Benefits:

- A dam goes in, more water gets used,  $\xi$
- more widget-making workers are hired
- they buy homes and hamburgers
  - more roofers and fry cooks get hired and ...

11

## Secondary Benefits:

- A dam goes in, more water gets used,  $\xi$
- more widgets get made
  - widget makers sell to wholesalers
    - more truck drivers and accountants get work and ...

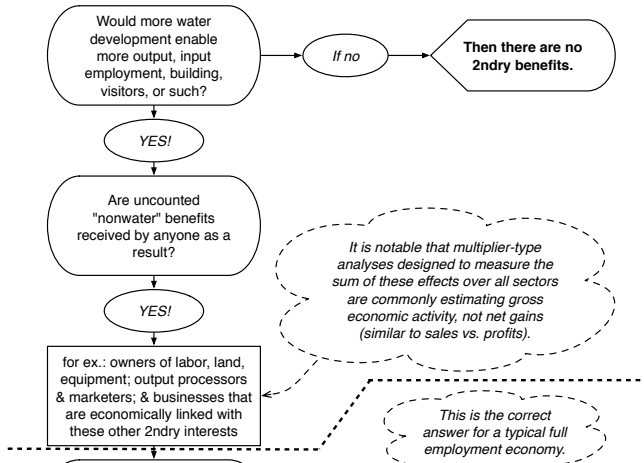
12

## Secondary Benefits:

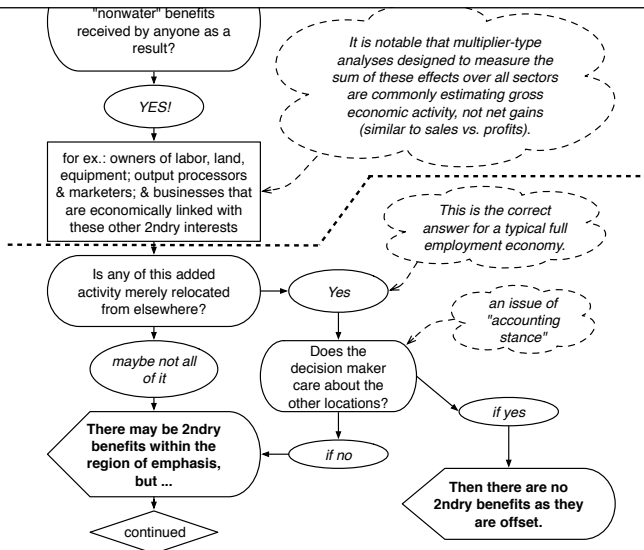
- A dam goes in, the water is enticing, &
- more recreationists show up
- they buy bait and lodging
  - more worm farms and sales tax revenue and ...

13

## Do Secondary Effects Count?



14



15

