

**Homework #3: Markets, market failures and policy failures**  
due Thursday, November 8<sup>th</sup> (via email)

One purpose of this course is for you to practice applying economic analysis to real-world problems, so as to understand and explain government actions (or lack of action) in the agricultural sector. The previous two homework assignments used published data as our window on the world; in this assignment we'll use news stories.

Your task for this assignment is to find three news reports that describe economically interesting aspects of agricultural markets and policy interventions, and to write a brief analysis of how each one illustrates (or might be an exception to!) the economic principles discussed in this class.

For each story, please use one page to summarize in your own words what are the market forces and policy interventions that give rise to the events discussed in the article. In your write-up, please include a citation (title, author, source and date) with a live link to the article into a Word document. [To create a live link in Word, simply right click at the insertion point, choose "hyperlink" from the drop-down menu, and paste the url into the hyperlink box.] Put each analysis with its citations on a separate page, so that your assignment consists of a total of three pages. Then email the Word document to me before class. I will use the live links to check out the articles. (Actually printing out each article would be a big waste of paper!)

An example from an article appearing in 2007, with just the start of an appropriate analysis, would be:

An interesting recent story on food safety policy is "[China Moves to Change Damaged Global Image](#)", by David Barboza (New York Times, July 29, 2007), which explains how "After years of being accused by Western nations of making only token gestures to fight fake goods... high-ranking officials and regulators vowed to strengthen China's food safety system, tighten controls over chemical use by large seafood and meat producers, and create a system that holds producers more accountable for selling unsafe products." This intervention dramatically illustrates the need for governments (rather than just private companies) to help overcome the problem of asymmetric information in consumer goods...

Note that, like our previous homework assignments, doing this task well is harder than it seems, and will help you build an important professional skill – in this case, the ability to recognize and describe situations in which markets and governments fail to reach Pareto optimality, so that economic analysis can then help improve social welfare.

The fastest way to see unfiltered news from around the world is usually through [www.google.com/news](http://www.google.com/news). As with other kinds of internet searches, the challenge is to think of appropriate search terms, and then sift through the many results you'll see to find what you need.

You can work in pairs or larger groups to find articles, but I expect each student's choice of three articles to be unique. In other words, you can search together on common topics, but two students should not knowingly use the same articles. The real world is full of policy distortions, so there should be no shortage of material!

Grading will be based on the degree to which the stories you choose and your analysis of those stories illustrate the basic principles of economic policy analysis (e.g. in the example above, explaining the rationale for third-party quality certification). Much of the work in this assignment consists of experimenting with various search terms to find suitable articles, and then reading a fairly large number of stories to see which might be the best examples of things discussed in class.

The news reports you choose can concern anything related to food and agriculture, from anywhere in the world, but please note the following guidelines:

- The reports you choose should be actual news: that is, **factual reports of some observation or event**. In a few cases, it might be possible to use features and commentary (such as surveys, editorials and opinion pieces), if they also provide reporting about particular factual observations or events.
- The events described should be as economically interesting as possible, **that illustrate some non-obvious consequence of individuals' optimization for equilibrium outcomes** in society as a whole.
- Please *do not* choose articles that describe simple interactions of supply and demand, with prices adjusting in response to producers' marginal costs and consumers' willingness to pay. In this class, we are studying cases **where producers and consumers are joined by a third party, usually government, whose role involves some non-market policy intervention**.
- You should look for situations in which **current policy interventions may be either inappropriate or insufficient**: in some cases, you may be able to see Pareto improvements from reforms that reduce government activity, and in other cases there may be improvements from initiating or increasing an intervention. **In a few cases, current interventions may be socially optimal**, in the sense that you (or other economists!) cannot devise Pareto-improving reforms.