Economics of the Public Service Industries  
Econ 476/576

Professor Yordon  
Fall, 1982


Charles F. Phillips, Economics of the Regulated Industries (Irwin and Co., 1969). This book is out of print, but I am placing a copy on reserve and Kinko's (13th and College) can provide copies of some excerpts.

Wesley Yordon, "Telephone Rate Structure...", Ch. 8 in Telecommunications (L. Lewin, editor: 1980, Artech House). This book is on reserve and Kinko's can provide copies of the chapter assigned. Cited below as Y.

plus material from current periodicals on specific industries.

Some Comments on the Nature and Content of the Course

One of the objectives of the course is to provide knowledge of principles which should be useful in a wide variety of jobs with regulated firms, regulatory agencies, or other institutions which set prices according to principles similar to those applicable to public utilities (e.g., government agencies which sell services, inter-divisional transfer prices within a corporation). If you take the course with the attitude that you are preparing for such a job I believe you will find the course to be fruitful, but if you want mainly entertainment you probably should choose some other course because some of the essential material will probably seem tedious (e.g., the accounting issues associated with the revenue requirement formula) and some may seem difficult because it involves applications of the nebulous theory of "third best." On the other hand only a small amount of abstract economic theory is needed, and the bit of math which will be stressed presupposes only high school algebra.

You may understandably be puzzled by the meaning of the course title. The term "Public Service Industries" is intended to include:

1. Industries which courts have judged (in the days before 1934 when courts accepted the task of making such judgments) to be "public utilities" so affected with public interest as to make it legitimate for governments to control prices, service, entry and exit -- e.g., railroads, stage and bus lines, trucklines, airlines, pipeline, telephone service, electricity, natural gas, water and sewer service. (Note that the legal definition of "public utility" is a bit broader than the common usage.)

2. The same services when provided by government enterprise (and therefore in a sense not "regulated" because public control is presumably exerted directly, but bear in mind that a higher level of government may regulate a lower level).

3. Activities with similar economic characteristics such as wireless telecommunication, hospitals, highways, libraries, parks, parking lots, postal service, schools, taxis, zoos, with focus on optimal policies for pricing and degree of competition.

(Banking and securities brokerage might be classified as public service industries but since they are treated in Econ 411 I do not view them as falling under Econ 476.)
This discussion is included on the assignment sheet because each student is required to do a research project on some aspect of a "public service industry" and I want you to know that you are not limited to topics on public utilities but are not free to choose any aspect of government regulation.

The research project is intended to provide experience in library research on current issues, using periodicals and government documents. For 400 level credit you should work about 36 hours on the research and about 4 hours writing a summary (3 to 4 typed pages). For 500 level credit you should work about 48 hours on the research and about 8 hours writing a report (10 to 12 typed pages). Everyone must keep and submit all handwritten notes, especially bibliography cards.

To calculate semester grades I will use whichever of these two weighting systems yields the higher grade:

Hour exams 20% each, project 20%, final exam 40%

OR

Best hour exam 25%, project 25%, final exam 50%

The second alternative eliminates the need for make-up exams; if you miss an hour exam for any reason your grade will be a zero.

OUTLINE AND ASSIGNMENTS

<table>
<thead>
<tr>
<th>Dates</th>
<th>Topics</th>
<th>Assignments</th>
</tr>
</thead>
<tbody>
<tr>
<td>September 1 - 15</td>
<td>I. Introduction</td>
<td>Phillips pp. 1 - 8</td>
</tr>
<tr>
<td>September 17 - 29</td>
<td>II. Theory of Regulation</td>
<td>Y Secs 8.0 - 8.2</td>
</tr>
</tbody>
</table>

HOUR EXAM: FRIDAY, October 1

October 4 - 22

B. Proper rate structure:

HOUR EXAM: MONDAY, October 25

ON OR BEFORE NOVEMBER 1 TURN IN PROPOSALS FOR RESEARCH PROJECTS!
October 27 - November 5
Electricity and natural gas


November 8 - 19
Transportation


ON OR BEFORE NOVEMBER 24 TURN IN PROJECT REPORTS. IF LATE (November 29 - December 3) ONE LETTER GRADE WILL BE SUBTRACTED. IF VERY LATE (December 6 - 10) TWO GRADES WILL BE SUBTRACTED.

November 22 - December 6
Telecommunication


December 8 - 10
Review

FINAL EXAM IS FRIDAY, DECEMBER 17, 11:30 - 14:30, in Econ Bldg. #119.
(If you can't come to the exam ask your hospital attendant to call me the day before to arrange an excused absence -- unexcused absentee will receive a grade of F.)