

**National Security Economics**  
**PPOL 6085, MON 250, Thursdays 18:10-20:45**

**Course Description:**

This course applies economic reasoning and methods to the study of defense and national security issues. The first half of the course examines resource management issues using the tools of microeconomics and econometrics. Without resources the Department of Defense could not buy weapons or deploy soldiers, the Department of Homeland Security could not defend our borders, the Intelligence Community could not operate its spy programs, and the Department of State would be without staff for US embassies. The management of resources, including how choices are made over which plans and programs to fund, is where national security policies are made real. Issues that will be examined in this portion of the course include: the resource allocation processes in the Departments of Defense, State, and Homeland Security and in the intelligence community; military force planning and analysis; and the acquisition processes for major weapon systems.

The second half of the course will use the tools of economics to examine national security issues like the origins of international conflict, the relationship between military expenditures and growth, military alliances, arms races, and terrorism. Emphasis will be placed on understanding the incentives and constraints under which agents act, the costs and benefits of actions, and how these forces shape the security environment and choices that are made. Throughout the course, discussions with senior officials and visits to related organizations will be used to connect important concepts to application and practice in national security decision-making processes. Students completing the course will gain an in depth knowledge of national security issues as understood through the lens of economics, how major national security resource and management related decisions are made and can be analyzed, and the tools and skills needed for participating in national security issues.

**Course Readings:**

There are two textbooks used for the course: 1) Adams, G. and C. Williams, "Buying National Security: How America Plans and Pays for Its Global Role and Safety at Home," Routledge, 2010; and 2) Sandler, T. and K. Hartley, "The Economics of Defense," Cambridge University Press, 1995. Additional reading from journals articles, government documents, etc. will be provided throughout the course.

**Tentative Grading Plan:**

Homework Assignments:	4 assignments @ 10% each	40%
In-Class Exercises:		20%
Midterm		15%
Final		25%

## Course Outline

Lecture 1, Thursday, May 19:

Economics 101  
National Security 101  
Guest speaker, David Chu (Institute for Defense Analyses)  
Review of microeconomics

Lecture 2, Thursday, May 26:

Review of microeconomics  
DoD budget  
DoD resource allocation process

Lecture 3, Thursday, June 2:

State Department, Homeland Security, and Intelligence Community budgets and resource allocation processes  
Guest speakers Sid Kaplan (State), Roger Mason (DNI), and Eric Coulter (DHS)  
OMB and Congressional phases of resource allocation process

Lecture 4, Thursday, June 9:

Labor Economics 101  
Military Manpower 101  
Guest speaker, Stan Horowitz (Institute for Defense Analyses)

Lecture 5, Thursday, June 16:

In-class exercise: debate on the all-volunteer force  
Industrial Organization Economics 101  
Military Acquisition 101  
Guest speaker, Dave McNicol (Institute for Defense Analyses)

Lecture 6, Thursday, June 23:

Catch-up and review time  
Midterm

Lecture 7, Thursday, June 30:

Public Goods 101  
Military Alliances

Lecture 8, Thursday, July 7:

In-class exercise: debate on the war in Iraq  
Terrorism

Lecture 9, Thursday, July 14:

Guest speaker, Allen Miller (Department of Homeland Security)  
Risk

Lecture 10, Thursday, July 21:

Guest speaker, Yev Kirpichevsky (Institute for Defense Analyses)  
Arms Races (if time)

## Reading Assignments

To be read by Lecture 2, Thursday, May 26:

1. *The Economics of Defense*, Chapter 1
2. *Buying National Security*, Chapters 1 and 5
3. Gordon and Hinkle, "Best Practices in Defense Resource Management," Institute for Defense Analyses Document D-4137

To be read by Lecture 3, Thursday, June 2:

1. *Buying National Security*, Chapters 2, 3, 4, 6, and 7

To be read by Lecture 4, Thursday, June 9:

1. *Buying National Security*, Chapters 8, 9, 10, and 11
2. *The Economics of Defense*, Chapter 6
3. Asch, Miller, and Warner, "Economics and the All-Volunteer Military Force," chapter 11 in Siegfried, *Better Living Through Economics*.

To be read by Lecture 5, Thursday, June 16:

1. *The Economics of Defense*, Chapters 5 and 7
2. Rogerson, "Economic Incentives and the Defense Procurement Process," *Journal of Economic Perspectives*, Vol. 8, No. 4 (Autumn, 1994), pp. 65-90

To be read by Lecture 7, Thursday, June 30:

1. *The Economics of Defense*, Chapters 2 and 3

To be read by Lecture 8, Thursday, July 7:

1. *The Economics of Defense*, Chapter 13
2. Krueger and Maleckova, "Education, Poverty, and Terrorism: Is there a Causal Connection," *Journal of Economic Perspectives*, <http://www.krueger.princeton.edu/terrorism2.pdf>.

To be read by Lecture 9, Thursday, July 14:

1. Willis, Morral, Kelly, and Medby, *Estimating Terrorism Risk*, [http://www.rand.org/pubs/monographs/2005/RAND\\_MG388.pdf](http://www.rand.org/pubs/monographs/2005/RAND_MG388.pdf).

To be read by Lecture 10, Thursday, July 21:

1. *The Economics of Defense*, Chapter 4

### **Homework Assignments Schedule**

- Homework #1: Provided during Lecture 1, Thursday, May 19  
Due at the start of Lecture 3, Thursday, June 2
- Homework #2: Provided during Lecture 3, Thursday, June 2  
Due at the start of Lecture 5, Thursday, June 16
- Homework #3: Provided during Lecture 7, Thursday, June 30  
Due at the start of Lecture 9, Thursday, July 14
- Homework #4: Provided during Lecture 8, Thursday, July 7  
Due at the start of lecture 10, Thursday, July 21