

Economics studies how a society allocates scarce resources. This course introduces you to economic analysis by comparing the different methods used for resource allocation in different economic systems. We focus on market economies, and the interaction between consumer and producer decisions, but we also consider allocation methods in traditional and centrally planned economies. We look across countries, over time, and across different goods (for example, within the U.S. today the allocation methods for food, automobiles, education, and medical care are quite different from each other). The comparison is designed to illustrate fundamental economic ideas such as opportunity cost, short- and long-run equilibrium, and economic efficiency. We examine the role of government in managing the economy, introducing macroeconomic issues of inflation and unemployment. We also examine the connections between economies, through international flows of goods and money, and their implications for the policies chosen by individual countries. Every attempt is made to integrate current economic topics (such as tax cut proposals, the state of the economy, unemployment, and the ups and downs of the stock market) into the course.

Office Hours: Monday 2:00-2:30, Tuesday 3:00-4:00, Thursday 1:30-2:30.

Text: Introduction to Economic Reasoning, by Rohlf, 5th edition.

Recommended: subscription to The Wall Street Journal or other major newspaper.

Grading: 25% quizzes (weekly, one question, starting September 8 – no makeups)
 25% midterm exam (October 27, in class)
 25% final exam (December 15, 4-6 – plan your travel accordingly)
 25% homework (two short papers) and class participation

Teaching Assistant: Samanmala Dorabawila.

Weekly discussion sections will be arranged

T.A. office hours: Monday 10:30-11:30, Wednesday 1:00-2:00 (JC 202A)

Course Outline

I. Introduction (Rohlf, chapters 1,2; 2 lectures)

Introduce economics as study of the allocation of scarce resources: define scarcity, discuss changes over time in scarcity and allocation methods, identify a number of allocation methods in use currently. Define opportunity cost, give examples. Introduce Production Possibility Frontier (PPF), use to illustrate efficiency and economic growth. Compare different economic systems (capitalism, socialism, traditional) and tradeoffs between efficiency and equity.

II. Demand, Supply, and Markets (Rohlf, chapters 3,4; 4 lectures)

Introduce demand (decision of what to consume, based on opportunity cost), comparing determinants of opportunity cost in different societies. Introduce supply (decision of what to produce, also based on opportunity cost), with appropriate comparisons. Consider the concept of a market, and a market-clearing equilibrium that depends on both demand and supply: first for a market economy, then extended to other economic systems. Define elasticity of demand and supply, and consider the impact of government interventions in markets in different economic systems.

III. Production Decisions (Rohlf, chapters 5-8; 4 lectures)

Look at the different ways firms can be organized. Examine the firm's profit-maximizing supply decision (how much to produce, and how to produce it) in more detail. Compare market outcomes for price takers and price searchers. Consider long-run issues of entry and exit, and their relation to the profitability of the industry. See how these long-run forces operate differently in different economic systems, and how this affects the long-run market equilibrium in those economies. Consider problems arising from non-competitive markets and the benefits (and costs) of antitrust policies.

IV. Market Failure, Role of Government, International Trade. (Rohlf, chapters 9,16; 4 lectures)

Consider various market failures: income inequality; externalities (such as pollution); public goods and their provision (or lack of provision) in different economies. For each of these problem areas, consider how governments can (and do) intervene to 'improve' the market's allocation of resources, and potential problems that could arise from the intervention. Introduce the concept of comparative advantage and how it determines which countries produce which goods.

<midterm exam>

V. Basic Macroeconomics (Rohlf, chapters 10,11; 2 lectures)

Introduce macroeconomic terms (inflation, unemployment, GDP). Describe the 'business cycle', and compare the experience of several countries in recent years. Examine a simple aggregate supply-aggregate demand model of the macroeconomy.

VI. Macroeconomic Policy (Rohlf, chapters 12-14; 4 lectures)

Consider the federal budget and the role that fiscal policy plays in the economy. Examine the role of money in the economy, along with the structure of the banking system and the Federal Reserve System. Consider how monetary policy affects the economy. Compare the use of different policy measures in different countries at various times. Introduce the idea of 'supply-side' economics, and consider how this affects the appropriate policy in different economic settings.

VII. Economic Growth, International Finance (Rohlf, chapters 15, 17; 2 lectures)

Consider the determinants of economic growth, and policies that could increase growth through encouraging savings and investment. Examine how currencies are linked through the international monetary system, and how events in one country affect the economies of other countries.

VIII. Micro and Macro Applications (various sources; 1 or 2 lectures)

Review supply and demand theory. Examine macroeconomic policy issues. Explore various issues about implementing macro and micro policies, including differences across countries and over time in the decisions made by policy-makers.

<also voluntary student classroom presentations for extra credit, at the end of the semester>