

Economics 101: Introduction to Economics

Fall 2008

Art Carden

101.02: Tuesday & Thursday, 11:00-12:15, Buckman 216

101.04: Tuesday & Thursday, 2:00-3:15, Buckman 216

Office Hours: Wednesday, 2:00-4:00, Buckman 319 and Tues/Weds/Thurs at the Rat

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“The art of economics consists in looking not merely at the immediate but at the longer effects of any act or policy; it consists in tracing the consequences of that policy not merely for one group but for all groups.”... “To see the problem as a whole, and not in fragments: that is the goal of economic science.”¹

Introduction and Motivation

Welcome to Economics 101. This is the introductory course in *microeconomics*, which studies the behavior of individuals, firms, and governments in response to different incentives. The Rhodes College Catalog describes the introductory economics sequence as follows:

A survey of economic analysis and institutions combining economic theory with a discussion of applications to the U.S. economic system for majors and non-majors.

First semester (microeconomics): Study of the behavior of consumers and firms in competitive and noncompetitive markets, and the consequences of this behavior for resource allocation and income distribution. Consideration of government’s role in competitive and noncompetitive markets.²

Economic analysis provides us with a way of thinking about the world that examines how people respond to incentives. This course will help you learn to think like an economist. Mastering the “economic way of thinking” will open up a whole new world of ideas, approaches, and perspectives.

In this course, you will learn how to apply the economic way of thinking to a variety of issues. This course has several key topics: incentives, basic models of consumer and producer behavior (as well as their applications), the workings of “supply and demand,” the causes and consequences of government intervention, the social role of profit and loss, and the consequences of each for human well-being. The Rhodes Vision states that “Rhodes College aspires to graduate students with a life-long passion for learning, a compassion for others, and the ability to translate academic study and personal concern into effective leadership and action in their communities and the world.” Understanding economics is integral to the Rhodes Vision in that economics equips you with a unique critical perspective. While economic analysis *as such* does not produce value judgments, careful economic reasoning can inform “effective leadership and action” in that what you learn in this course will help you carefully evaluate and act on policy proposals, whether it be in the boardroom or at the ballot box. This syllabus provides a tentative guide to the course. The assignments and course outline are subject to change.

¹ Hazlitt, Henry. 1996 [1946]. *Economics in One Lesson*. San Francisco: Laissez-Faire Books, pp. 5, 184. Emphasis in original.

² <http://www.rhodes.edu/images/content/economics.business.administration.pdf>. The second course in the sequence, *macroeconomics*, focuses on the aggregate economy.

Economics 101 and Foundation Requirements

This course fulfills the F8 Foundation Requirement that you “explore and understand the systematic analysis of human interaction and contemporary institutions.” We will fulfill the F8 requirement through lectures, hands-on homework assignments, exams, two short analytical papers, and extensive in-class discussion.

Navigating Economics 101

With proper effort, this course will be a rich and rewarding experience. You are expected to attend all class meetings and do the assignments. I will draw on the assigned readings and supplementary material very extensively for assignments, exam questions, and course lectures. **Be prepared to spend eight to twelve hours per week outside the classroom on work for this course.** There is no One Right Way to study or take notes; however, I encourage you to consult <http://www.studygs.net/index.htm> for suggestions.

You are responsible for all course material, announcements, and assignments given in class or via email to your @rhodes.edu account. If you have to miss class for any reason, you will need to get the relevant information from a classmate. Since you have limited space in your email account, you might want to route these emails to a Gmail account and save them there because they will come in handy as the semester progresses.

In addition to the economic theory and applications you will learn, this course will also be an exercise in managing large amounts of complex information. For most of the material, exposure during class meetings will not suffice. You will need to study the material before class and after, and I strongly encourage you to make regular use of tutoring sessions, office hours, and the writing center. I encourage you to discuss the material with me, your classmates, your study group, the peer tutor, your friends, your grandmother, your cat, and anyone else who will listen. **For the two analytical papers, you may not share your written work with anyone except me or the staff at the writing center unless you are specifically instructed to do otherwise.**

This course, its content, and its policies change from semester to semester. You should proceed with the assumption that this syllabus and direct communication in class and through email are the only reliable sources of information about this class and its requirements.

I expect you to attend all class meetings and to be fully engaged with the lecture and the discussion. Multitasking during class is unwise, distracting, and disrespectful: it imposes what economists call a *negative externality* on everyone else in the room. If I have reason to believe that anyone in the room is disengaged—i.e., working on material for another class, surfing the web, etc., everyone in the class will get a five-minute, ten point quiz on the material covered in class up to that point. The quiz will be un-droppable. The same will happen if a cell phone makes noise—either ringing or vibrating—in class.

The Honor Code and Plagiarism

You are expected to abide by the Honor Code in all that you do for this course. The Honor Council Constitution defines plagiarism as “an act of academic dishonesty. A student must not adopt or reproduce ideas, words, or statements of another person without appropriate acknowledgment.” If you have any questions about what constitutes “academic dishonesty” and “appropriate acknowledgment,” please discuss them with me and with the staff at the Writing Center.

Academic Support

Tutoring: Sara Gochnauer is the peer tutor for this class. She will be available on Monday and Wednesday evenings at the library.

Disability Services: If you have a documented disability and wish to receive academic accommodations, please contact Melissa Butler McCowen at the Office of Student Disability Services immediately (x3994, mccowenm@rhodes.edu). **Special accommodations will not be granted without proper documentation from the Office of Disability Services;** please make arrangements with ODS as soon as possible so that we can make the accommodations you need. **This must be done by September 18.**

The Writing Center: The Writing Center is located in 212 Barret Library, and I expect you to use it for your papers: <http://www.rhodes.edu/writingcenter>, writingcenter@rhodes.edu, x3393. You should familiarize yourself with the College's *Guide to Effective Writing*, available from the Center or from the Center's Public Folder: \\Fileserver1\acad_dept_pgm\Writing_Center\Public. The Center's Folder also contains a number of other useful handouts and suggestions.

The Technology Helpdesk: you can reach them at x4357 or helpdesk@rhodes.edu.

Readings and Resources

Steven Landsburg, *Price Theory and Its Applications*, 7th edition (main text). The course will follow the book very closely. The outlines for the sixth and seventh editions are virtually identical.

Thomas Sowell, *A Conflict of Visions*. We will motivate our pursuit of the F8 foundation requirement with Sowell's discussion of the differences between the "constrained vision" and the "unconstrained vision." Economics is largely an exercise in the "constrained vision." A new edition was released this year, but we will follow the edition available at the bookstore.

***The Concise Encyclopedia of Economics* (available online, <http://econlib.org/library/CEE.html>).** We will supplement the main readings with articles from the Concise Encyclopedia.

David Allen, *Getting Things Done* (highly recommended). I encourage you to invest in an effective time- and information-management system. Allen's book offers one of the best I've seen.

Additional readings will be made available in class, in the public folder on the academic fileserver, by email, and via Moodle.

How to Use the Readings

Textbooks and other kinds of academic prose cannot be read like novels. Some reading experts suggest that the best way to proceed is to thoroughly "preview" everything: read the introduction, the conclusion, and the sub-headings before you proceed. Make note of visual aids and definitions in the margins. Familiarizing yourself with what you are about to do is an exercise in reinforcement and repetition that will prime your mind for effective study. Whenever we begin a new chapter in Landsburg, you should read the introduction and conclusion first. The best way to preview Sowell is to read the introduction, skim the subject headings, and read the "summary and implications" sections before reading each chapter.³

³ See in particular Wade Cutler's *Triple Your Reading Speed* and Tony Buzan's *Make the Most of Your Mind* for more suggestions.

Assignments and Grades

You will have the opportunity to earn 1050 points in this course, distributed as follows:

1. You will have the opportunity to earn 750 points on two exams and a final, each worth 250 points. Learning will be rewarded: if your grade on the final is better than your lowest exam grade, your lowest exam grade will be re-calculated as $(1/3 \text{ lowest exam}) + (2/3 \text{ final}) = \text{new lowest exam score}$. Thus, if you score 150 points on the first exam, 200 points on the second exam, and 240 points on the final, your new grade for the lowest exam will be $(1/3)*(150) + (2/3)*(240) = 210$.
2. Two short analytical essays worth 75 points each.
3. Quizzes and Homework: 150 points, ten points each. I will count your top 15.
4. Your final percentage grade will be calculated as $(\text{points earned}/1000)$. There may be opportunities for bonus points. Letter grades will be assigned as follows:

920+ (92%): A	730+ (73%): C
880+ (88%): A-	700+ (70%): C-
850+ (85%): B+	670+ (67%): D+
820+ (82%): B	640+ (64%): D
790+ (79%): B-	600+ (60%): D-
760+ (76%): C+	599- (<60%): F

Exams

We will have two in-class exams and a final. The first exam is scheduled for **Thursday, October 16**. The second exam is scheduled for **Thursday, November 13**.

The comprehensive final exam will take place during regularly scheduled exam periods. **Mark this on your calendar. You may take the exam at either time with permission. If you wish to take the exam with the other class, let me know before 6:00 PM on Friday, December 12.**

Homework and Quizzes

The homework and quiz grade will consist of short in-class or out-of-class assignments worth ten points each. These may take the form of problem sets, multiple choice quizzes, or short essays. They may or may not be announced in advance. You may work together on out-of-class assignments—indeed, I encourage you to do so—but I expect the work you turn in to be your own. **Homework assignments are due before class starts; if it is turned in at or after the scheduled class starting time, it will be considered late.**

The Writing Center. The Writing Center is located in 212 Barret Library, and I expect you to use it early and often: <http://www.rhodes.edu/writingcenter>, writingcenter@rhodes.edu, x3393. You should familiarize yourself with the College's *Guide to Effective Writing*, available from the Center or from the Center's Public Folder: \\Fileserver1\acad_dept_pgm\Writing_Center\Public. The Center's Folder also contains a number of other useful handouts and suggestions. This information is repeated intentionally.

Submitting the Papers. Both papers will be three pages long, not including the cover sheet, the bibliography, or any graphs you may use. Your papers are due before class begins on the assigned due date. You may turn in the paper by noon on the following day for no more than $\frac{3}{4}$ credit. You may turn in the paper by the beginning of the next class meeting for no more than half credit. Papers submitted more than 48 hours late will earn a grade of zero. Papers will be typed and double-spaced in 12 point Times New Roman font with MS Word default margins. I suggest that you download "Template.doc" from the public folder and type the honor code pledge in the box labeled "pledge." **Unsigned, unpledged work will not be accepted.** For purposes of the Honor Code, "unauthorized aid" is defined as sharing

your written work with anyone other than me or the staff at the Writing Center unless otherwise explicitly directed.

Missing Assignments and Exams

You are expected to complete all assignments as directed, and the going assumption will be that you are following directions and recommendations. For all intents and purposes, due dates and exam times are to be considered written in stone. If, for any reason, you feel that you cannot complete an assignment when it is due or take an exam on the assigned date, you may submit a signed, pledged, explanation of the circumstances preventing you from completing the assignment as directed (not to exceed one double-spaced, typed page). I may require supporting documentation, and I reserve the right to refer any petition to one or more colleagues for anonymous review. I will make sure that confidentiality is maintained.

Resources in the Public Folder

Homework assignments, exams, and quizzes from previous semesters will be available in the Public Folder. I encourage you to use these while you study and especially as you prepare for exams.

Questions about Grading?

If you have questions about the way the assignment was graded, I will be happy to answer them during office hours. You will be best served by preparing an explanation for why you believe your answer deserved more points. No additional points will be awarded during office hours. You may submit your assignment for re-evaluation with the understanding that I will re-grade it in its entirety. All such inquiries and submissions must be made within one week.

Course Outline

This outline is ambitious, preliminary, and subject to change. If we deviate from the outline, fear not. If we fall behind the outline, fear not. The assignments are to be read before the date for which they are listed. The syllabus will likely change as the semester progresses; watch your email for updates.

Additional readings will be assigned in class or via email to supplement the readings in the textbooks.

Write all due dates and exam dates on your calendar as soon as possible.

Week 1: Human Interaction and Contemporary Institutions: A Pre-Analytic Vision		
If you are interested in your learning style, you may want to take the Myers-Briggs learning styles assessment at www.humanmetrics.com or the Felder-Solomon Survey at www.engr.ncsu.edu/learningstyles .		
Wednesday	August 27	No Class, but I will be available in my office most of the day if you have any questions.
Thursday	August 28	Review the syllabus and write important dates on your calendar. Be prepared to discuss “Ten Key Elements of Economics” and chapters 1-2 of Thomas Sowell’s <i>A Conflict of Visions</i> . Students on the waitlist will be added to the class if spots open up. You will get a short take-home quiz reviewing the math you will need to know in this course. Objectives: <ol style="list-style-type: none"> 1. You will be able to state and explain the Ten Key Elements of Economics. 2. You will be able to identify and explain the key differences between the Constrained and Unconstrained Visions.
Week 2: A Pre-Analytic Vision and Economic Principles: Supply and Demand, Part I.		
Tuesday	September 2 Math Quiz Due. Optional Math Review Session, 7:30 PM	Finish reading <i>Conflict</i> : re-read chapters 1-2, skim chapters 3-4, read chapter 5, skim chapters 6-8, read chapter 9. Discuss chapter 9 with your study group. Review “Elements.” Objectives: <ol style="list-style-type: none"> 1. You will be able to explain the Ten Key Elements of Economics. 2. You will be able to explain the difference between the loci of discretion in the different visions. 3. You will understand the math you will need this semester (math review).
Wednesday	September 3	Drop/Add Ends.
Thursday	9/4	Finish discussion of Elements, <i>Conflict</i> as necessary. Supply and Demand. Landsburg, pp. 1-22. CEE articles: supply, demand, opportunity cost Objectives: <ol style="list-style-type: none"> 1. You will be able to define the concept of opportunity cost. 2. You will be able to explain why “marginal value” and “willingness to pay” are the same thing. 3. You will be able to draw a demand curve and explain what it means.
Week 3: Principles of Economic Analysis: Supply and Demand, Part I		
Tuesday	9/9	Supply and Demand. Landsburg, pp. 1-22. Objectives: <ol style="list-style-type: none"> 1. You will be able to state and explain the law of demand. 2. You will be able to describe the difference between “demand” and “quantity demanded.” 3. You will be able to state and explain the law of supply.

Thursday	9/11	Equilibrium and its applications. Landsburg, pp. 1-22. Objectives: <ol style="list-style-type: none"> 1. You will know how to identify equilibrium in a supply-and-demand model. This means that you will be able to identify equilibrium graphically, solve for equilibrium mathematically, and explain the concept of equilibrium verbally. 2. You will be able to explain how changing market conditions change equilibrium price and quantity.
Week 4: Trade and Wealth in a Market Economy		
Tuesday	9/16	Elasticity and its applications. Landsburg, pp. 98-102. Objectives: <ol style="list-style-type: none"> 1. You will be able to calculate own-price elasticity, cross-price elasticity, and income elasticity. 2. You will be able to explain the difference between own-price elasticity, cross-price elasticity, and income elasticity using appropriate diagrams where necessary. 3. You will be able to explain how the concepts of own-price elasticity, cross-price elasticity, and income elasticity provide information about interrelated markets.
Thursday	9/18 Withdrawal ends. Last day for accommodations from ODS.	Specialization and gains from trade. Landsburg, 2.1-2.2. CEE articles: free trade, income and growth EconTalk Podcast with Ed Leamer, "Outsourcing and Globalization" http://www.econtalk.org/archives/2007/07/leamer_on_outso.html Objectives: <ol style="list-style-type: none"> 1. You will be able to define the law of comparative advantage. 2. Using the law of comparative advantage, you will be able to explain how specialization and trade create wealth and conserve resources.
Week 5: The Theory of the Consumer: Unlimited Wants, Limited Means		
Tuesday	9/23	Unlimited Wants and Limited Means: Individual Tastes and Budget Constraints. Landsburg, 3.1-3.3. Objectives: <ol style="list-style-type: none"> 1. You will be able to explain the consumer's budget constraint. 2. You will define and explain the properties of consumer preferences. 3. You will be able to draw and explain the consumer's indifference map.
Thursday	9/25	Unlimited Wants and Limited Means: Individual Tastes and Budget Constraints. Landsburg, 3.1-3.3. Objectives: <ol style="list-style-type: none"> 1. You will explain whether indifference curves can cross or not. 2. You will be able to use the consumer's budget constraint and indifference map to find the consumer's optimum.
Week 6: Consumer Behavior and Market Demand		
Tuesday	9/30	Analyzing changes in prices and incomes, incomes. Landsburg, Chapter 4. Objectives: <ol style="list-style-type: none"> 1. You will be able to use an appropriate diagram to show how changes in prices and incomes change the budget constraint. 2. You will be able to use an appropriate diagram to explain how changes in prices and incomes change a consumer's optimum. 3.

Thursday	October 2	Income and substitution effects. Landsburg, Chapter 4. Objectives: <ol style="list-style-type: none"> 1. You will be able to define income and substitution effects. 2. You will be able to decompose changes in the price of one good into income and substitution effects. 3. We will evaluate proposals calling for higher gas taxes using our knowledge of income and substitution effects as well as an appropriate diagram.
Week 7: Consumer Theory and The Theory of the Firm		
Tuesday	10/7	Income and substitution effects. Landsburg, Chapter 4. Objectives: <ol style="list-style-type: none"> 1. You will be able to define income and substitution effects. 2. You will be able to decompose changes in the price of one good into income and substitution effects. <p>We will evaluate proposals calling for higher gas taxes using our knowledge of income and substitution effects as well as an appropriate diagram.</p>
Thursday	10/9	Decisions in the Market. Landsburg, 5.1-5.2. Objectives: <ol style="list-style-type: none"> 1. Define a firm's goals in a market economy. 2. Describe a firm's cost function and production function. 3. Explain the law of diminishing marginal returns for a firm with a single input. 4. Explain the law of diminishing marginal returns for a firm with two inputs.
Week 8: The Theory of the Firm, Part II		
Tuesday	10/14	Buffer and Review.
Thursday	10/16	Midterm Exam #1.
Week 9: Fall Break and the Theory of the Firm, Part II		
Tuesday	10/21	Fall Break. No Class.
Thursday	10/23	Production and costs. Landsburg, 6.1-6.3 Objectives: <ol style="list-style-type: none"> 1. You will be able to define what it means for a firm to minimize costs. 2. You will be able to use the producer's cost function and production function to identify the firm's cost-minimizing input choices.
Week 10: Competitive Markets: Price-Taking		
Tuesday	10/28	Production and costs. Landsburg, 6.1-6.3. <ol style="list-style-type: none"> 1. You will be able to derive the firm's long-run expansion path from the firm's cost function and production function. 2. You will be able to derive the firm's long-run average cost curve from the firm's expansion path.
Thursday	10/30	The competitive firm and industry: the short run. Landsburg, 7.1-7.2 <ol style="list-style-type: none"> 1. Explain the difference between average and marginal cost. 2. Describe the conditions under which a firm in a competitive industry is maximizing profit. <p>Describe the conditions under which a firm should and should not produce output in the short run.</p>

Week 11: Competitive Markets: Price-Taking		
Tuesday	November 4	The competitive firm and industry: the long run. Landsburg, 7.3-7.4 Objectives: 1. Define the “break-even price.” 2. Describe the difference between “shut down” and “exit.” Explain the shape of the long-run average cost curve.
Thursday	11/6	Increasing, constant, and decreasing cost industries: 7.5-7.7. Objectives: 1. Explain the differences between increasing, constant, and decreasing cost industries. 2. Explain how the market adjusts to the long run in increasing, constant, and decreasing cost industries. 3. You will apply the logic of increasing, constant, and decreasing-cost industries to several policy questions.
Week 12: Buffer, Review, and Midterm #2		
Tuesday	11/11	Buffer and Review. Skim Landsburg, chapter 19.
Thursday	11/13	Midterm Exam #2
Week 13: Supply and Demand II: The Analysis of Competitive Markets		
Tuesday	11/18	Efficient Markets: Landsburg, 8.1-8.3 CEE articles: efficiency, rent control, minimum wages, negative income tax. Joseph T. Salerno: “Price Controls: Case Studies” http://mises.org:88/FEA4 Objectives: 1. Describe what is meant by the term “efficient market.” 2. Explain the conditions under which a market is efficient. 3. Describe and explain the effect of government intervention on market outcomes.
Thursday	11/20	Knowledge, Information, and the Market process. Landsburg, 9.1 Sowell, <i>Knowledge & Decisions</i> chapter, Hayek, “The Use of Knowledge in Society,” additional readings on speculation and futures markets. Objectives: 1. Define and discuss the concept of arbitrage. 2. Know the difference between a futures market and a spot market. 3. Apply these insights to questions about whether we will ever run out of oil. Also apply these insights to questions about whether we should outlaw “speculation.”
Week 14: Price-Taking and Price Searching		
Tuesday	11/25	Market Power, Landsburg 10.1-10.2, 11.4-11.5 CEE articles” antitrust, monopoly Objectives: 1. Discuss the differences between monopoly and competition. 2. Explain the shape of the demand curve under monopoly. 3. Explain why monopolies are inefficient.
Thursday	11/27	Thanksgiving. No Class.

Week 15: Markets and Government		
Tuesday	December 2	Price Discrimination and Competition, Landsburg 10.3 Objectives 1. Define “price discrimination.” 2. Explain the difference between first, second, and third degree price discrimination. Explain how price discrimination affects efficiency.
Thursday	12/4	Externalities and Public Goods. Landsburg, 13.1-13.3. CEE Articles: public goods and externalities, public choice theory, tragedy of the commons, property rights 1. Define an “externality” and a “public good.” Explain how public goods differ from private goods. 2. Identify externalities and public goods. 3. Discuss the role of private property rights in solving externalities and public goods problems.
Week 16: Markets and Government		
Tuesday	12/9 Paper #2 Due.	Externalities and Public Goods. Landsburg, 13.3, 14.1-14.2 Yandle Podcast, “The Tragedy of the Commons and the Implications for Environmental Regulation” http://www.econtalk.org/archives/2007/10/yandle_on_the_t.html 1. Explain how governments can fix externalities and correct public goods problems. 2. Explain how markets can fix externalities and correct public goods problems. 3. Explain the “tragedy of the commons” and explain the importance of private property rights.
Wednesday	12/10	Office Hours, 2-5 PM. Review Session.
Thursday	12/11	Reading Day
Exams		
<ol style="list-style-type: none"> 1. You may take the exam with the other section. If you wish to do so, you must notify me before 6:00 PM on Friday, April 25. 2. If you have earned enough points to receive a passing grade (more than 600) and wish to be excused from the exam, you may do so if you notify me before the exam for section 2 begins on Saturday, 12/13. Following College policy, unexcused absence from the final will result in automatic failure.⁴ 3. If you are traveling as part of an official College function and if you have a required exam for another class during the alternate time, arrangements will be made with the athletic department staff and you will take your exam while you are away. To be excused from your exam, must notify me before 6:00 PM on December 9. 4. If you decide to switch exam times and later decide you want to switch back, you can do so until Friday, December 9 at 6:00 PM. After this time you must take the exam at the time for which you are registered. 		
Friday	12/12	Last day to register for the alternate exam time. Your request must be submitted via email by 6:00 PM.
Saturday	12/13	5:30 PM: Final Exam, 11:00 AM Class
Tuesday	12/16	8:30 AM: Final Exam, 2:00 PM Class

⁴ See the College Catalogue, p. 73.