

Economics 101
Professor McMahon

Brief description of course

Economics 101, the first of two semesters of economic principles, is an in-depth introduction to *microeconomic* theory and its applications. The second semester, Economics 102, introduces the student to *macroeconomic* theory and policy.

Microeconomics is the study of the behavior of individuals in their roles as consumers, workers, producers, employers, and so on—in what Alfred Marshall called “the ordinary business of life.” For households, ordinary business includes making decisions about what goods and services to buy and in what amounts, how much of our income to give to others, and how many hours of work to offer. For firms, ordinary business includes decisions about what goods and services to produce for sale and in what amounts, and how much labor and capital to employ in order to do so. This focus on individuals (consumers, workers and the firm’s decision makers) does not mean, however, that there is *no* aggregation; a certain amount of aggregation occurs when we examine markets in which a number—possibly a very large number—of buyers and sellers interact. Aggregation over the economy *as a whole*, however, is the realm of *macroeconomics*.

A necessary condition for success in this course is demonstration of mastery of the economic theory presented. Such demonstration includes not only the ability to explain the theory clearly but also the ability to use the theory to analyze the changes in behavior of economic actors in response to changes in circumstances and to explain the short-run and long-run consequences for the material welfare of society (i.e., of the individuals who make up the society).

Beyond this, however, the successful student will learn how economists *think about* the problems we encounter in the pursuit of a variety of personal and social goals. This “economic way of thinking” is useful in analyzing an amazingly large number of situations, not all of which are *obviously economic*, and certainly not *exclusively economic*, in nature (e.g., the commission of certain types of crime and ways to discourage such behavior). Judge Richard A. Posner (U. S. Court of Appeals for the Seventh Circuit), one of the founders of the field of “law and economics,” makes the point as follows:

Although the traditional subject of economics is . . . the behavior of individuals and organizations in markets, a moment’s reflection on the economist’s basic analytical tool . . . will suggest the possibility of using economics more broadly. That tool is the assumption that people are rational maximizers of their satisfactions. The principles of economics are deductions from this assumption . . . [However, if] rationality is not confined to explicit market transactions but is a general and dominant characteristic of social behavior, then the conceptual apparatus constructed by generations of economists to explain market behavior can be used to explain nonmarket behavior as well. [*The Economics of Justice* (Cambridge: Harvard University Press, 1983), 1-2]

The successful student will be able to explain how the economic way of thinking leads analysts to certain conclusions and policy prescriptions, even if the student does not ultimately agree with these prescriptions. The ability to use economic thinking is crucial not only to one’s attempts to achieve certain personal objectives but also to a better understanding of the way the world works, and the primary goal of this course is to help students gain the ability to *think like an economist* about a wide variety of issues.

Nevertheless, while you must learn to analyze events and policies as an economist would, it is not the case that you must subscribe to any particular set of values. Decision making involves combining positive analysis of what is possible in any given situation with normative judgments about which goals are most important. The positive analysis must be that of the economist; the values should be your own.

Rumor has it that this is a difficult course, and it is. However, if you follow the suggestions for how to read the text and how to take notes given in this syllabus, and if you put in 12 hours per week on this course (in class, on your assignments, studying, thinking, and practicing), you should do quite well. You will soon discover the way to succeed is to read, think, study, think, practice, and think. If you are not willing to work hard, you should reconsider your decision to take this course.

Primary goal: Demonstrate a mastery of economic analysis

Specific objectives: By the end of the semester, the successful student will be able to

1. explain the meaning of “scarcity” in economics and how this scarcity: (a) is relevant even for relatively wealthy individuals and societies, (b) relates to the necessity of making individual and social choices, and (c) leads to consideration of the important concepts of “opportunity costs” and “constrained” maximization.
2. explain the model of consumer behavior used in economics and how the use of this model under the assumptions of perfect competition leads to the theoretical derivation of (a) the demand curve for a particular good or service and (b) the supply curve of the factor of production we call labor.
3. explain the model of production used in economics and how the use of this model under the assumptions of perfect competition leads to the theoretical derivation of (a) the supply curve for a particular good or service and (b) the demand curve for the factor of production we call labor.
4. explain in detail how prices get set in markets (a) for goods and services and (b) for factors of production under the assumptions of perfect competition.
5. explain in detail, using the above “pieces of the puzzle,” (a) the mechanism of supply and demand by which market societies make the choices necessitated by the existence of scarcity and (b) the consequences for the material well being of the members of that society.
6. explain in detail the costs and benefits to a market society when the assumptions of perfect competition are not met or when markets fail, and evaluate the use of government intervention in markets as a means for improving the material well being of the members of society when such problems arise.

A "Map" of Microeconomics

Assumption of Homo Economicus



Scarcity and Marginal Analysis
(Maximization and Minimization)



Household's decisions

Utility theory

(Goal: Utility maximization)

Consumption (purchase of goods) decisions Work (offer of factors) decisions

Demand for a good Supply of a factor

{ aggregating over all households and assuming perfect competition }

Market demand for a good Market supply of a factor

Firm's decisions

Production theory

(Goal: Firm value maximization)

Production (offer of goods) decisions Employment (purchase of factors) decisions

Supply of a good Demand for a factor

{ aggregating over all firms and assuming perfect competition }

Market supply of a good Market demand for a factor

Product market (Demand and Supply) Factor market (Supply and Demand)

Important social consequences:
Competitive markets and economic goals

Complications and conclusions:
Market imperfections,
dynamic efficiency,
the role of government

Reading assignments

Regular reading assignments will be made in two books: *New Ideas from Dead Economists*, Revised Edition, by Todd G. Buchholz (*Dead*) and *Microeconomics*, Sixth Edition, by Robert S. Pindyck and Daniel L. Rubinfeld (*Micro*). Neither of these texts will be assigned in full, but you may want to dip into the unassigned portions for topics of particular interest.

In addition to the required texts, there are two recommended texts for this course. I encourage you to use *The Brief English Handbook*, Seventh Edition, by Edward A. Dornan and Charles W. Dawe, for help with the papers you write in this class. It is impossible to separate form and content; if there are errors in form, the content will inevitably be adversely affected, as will your grade on the paper. My recommendation is that you review Parts IV through VII immediately and then consult the *Handbook* frequently while writing the assigned papers.

The other recommended text is *Heaven on Earth: The rise and fall of socialism*, by Joshua Muravchik. If you choose to do so, you may earn up to five extra credit points to be added to your final average in the course by reading this book and writing an excellent book review of 4 – 6 pages in length. The following web site contains helpful hints for writing a book review: <http://www.usd.edu/~khackeme/guides/reviewgd.html>.

A preliminary schedule of the assignments with an indication of their relationship to both the map of microeconomics and the objectives for the course is provided below. There will occasionally be additions to and changes in the assignments (hence, “preliminary”). Such revisions in assignments will be made in class or through email, and it is your responsibility to keep up with all such changes.

Before coming to class on any given day, you must have read, studied, and thought about the assigned material and made a legitimate attempt to understand and work any assigned problems. Furthermore, you must have reviewed and thought about the assignments for, and your notes from, the previous three classes. For you to obtain the most from class time, it is essential that you come to each class with this preparation.

The best way to read a chapter in the text for the first time is to examine the tables and figures and to read the associated captions. A good part of the material in this course can best be understood with the assistance of numerical and graphical examples, and an initial examination of these examples should make the reading of the chapter somewhat easier. Then, come to class and take good notes. After class, go over your notes, correct them where necessary, make a note of any questions you still have, read the related material in your text in full, and add notes from the text to your notes from class.

This may sound like a lot of work. Let me assure you that it is. If you are not willing to do the work required, you should reconsider your decision to take this course.

Class attendance, class participation, and taking notes

You are expected to attend every class session, take good notes, and participate constructively. You are to bring a ruler and colored pens or pencils to each class. We will be drawing a lot of graphs, and having the appropriate tools is essential. There will be a significant amount of material covered in class that is not in your text, and there will be times when the text and lecture material will differ somewhat. When you have questions about these differences, you should

raise them in class. In general, when I give you material that differs from the text there is a good reason for doing so, and I expect you to use the material that I give you.

You are responsible for all material covered, announcements, assignments, and changes in assignments made in class whether you are present or not. If you miss a class, it is your obligation to obtain this information from another student, not the instructor, even if you have a decent reason for missing class (official school business, illness, or family crisis).

One of the keys to success in a class like this is taking good notes. You should take notes only on the front side of each page in your notebook, and you must sit down and go over your notes before the end of the day. Doing so will (1) give you an opportunity to make additions and corrections in your notes using the backs of the previous pages while the material is still fresh in your mind, (2) reinforce what you learned in class, (3) let you know the questions you need to raise in the next class, and (4) add notes from the text where needed.

Exams and papers

There will be two exams in this course, a midterm and a final, and both will be cumulative. The expected dates of these exams are given in the preliminary schedule of assignments. You will find that preparing for the exams will be easy, and that you will do well on the exams, if you (1) carefully prepare each assignment, (2) attend class regularly and on time, (3) take good notes, and (4) review and study your previous reading assignments and notes before each class (see above). It is not possible to “cram” for these exams, so if do not take this advice, you will find yourself in deep trouble.

There will be no make-up midterm exam given. If you miss the midterm exam, you must submit a written, pledged explanation of your failure to take the exam at the appointed time. I will be the sole judge of the acceptability of your explanation, and I may require you to provide supporting evidence with your explanation. If I do not find your reason to be acceptable, you will receive a zero on the exam. With respect to failure to take the final exam, the College Catalog states, “Unexcused absence from a final examination automatically results in failure in the course. A student who is prevented by illness or other reason from taking the final examination at the scheduled time must present a written excuse or doctor’s certificate and will be given a conditional grade of X (incomplete).”

Please note: If you have been granted an accommodation by Rhodes that includes extra time on tests, please give me the relevant form during the first week of the semester so that we can work out the best way to meet your need.

There will also be several papers assigned during the term, and the expected due dates for the papers, which are subject to revision, are also included in the preliminary assignments. The papers will be of two types: short summaries of some of the readings and somewhat longer analytical papers that will be similar to open-book, take-home exams.

If you do not turn in a paper on the date and at the time it is due, you will be assigned a grade of zero. If you turn the paper in within the next 24 hours, your maximum grade on the paper will be a 75 (out of 100). If the paper is not submitted within the first 24 hours after it is due, your maximum grade will be a 50. After 48 hours, the zero initially assigned becomes your grade. If you wish to plead for a reduction in penalty for a late paper, you must submit a written, pledged explanation of your failure to meet the deadline when you turn the paper in. I may require that

you provide supporting evidence with your explanation. Don't plan to take advantage of this potential for leniency. I will be the sole judge of the acceptability of your explanation, and very few will be deemed acceptable.

When writing the short summary papers, you may discuss the main points of the readings with other students in the class prior to writing your paper; but when you turn in your paper, it is understood that the paper is your own work. Should that not be the case, your submission of the paper as your own is a violation of the honor code. This is true whether you explicitly include the pledge or not. Each of the short summary papers is to be produced using Microsoft Word. Each paper is to be double spaced and typed in 12 point Times New Roman (the type used for this syllabus) or a similar font. The appropriate length of each paper is, to some extent, a function of the amount of material to be summarized. However, you should strive for a succinct one page, and I will accept up to two pages if the material warrants. These papers are to be submitted by putting them in my "InBox" on the fileserver (see point 4 under "Additional important information"). I must receive these papers no later than noon on the due dates. If you experience a problem putting a paper in my InBox, then attach it to an email and send it to me by noon on the due date. Then immediately go to the ITS people for help (see point 5 under "Additional important information").

When writing the longer analytical papers (about 4 pages of text), you will be allowed to use the assigned readings, your summaries of the assigned readings, and your class notes, but you are not to consult with anyone other than me or to consult papers written by present or former students in this class. The body of each paper is to be double spaced and typed in 12 point Times New Roman (the type used for this syllabus) or a similar font. Graphs are to be placed after the body of the paper. You will be given a folder in which you are to submit these papers; do not use staples or paper clips on your papers. Your name, section number, and the page number of your submission must be in the top right-hand corner of every page of your paper. These papers are to be submitted at the beginning of class on the due dates.

Additional important information

1. Students in this class are expected to abide by the Honor Code which covers all exams and papers submitted for a grade and all reasons given for missing exams or paper due dates. Violations will not be tolerated.

2. I want to be available to meet with you on an individual basis as often as you need me to do so. I expect to be in my office (Buckman 331, ext. 3738) at the following times:

Monday, Wednesday, Friday	3:00 PM – 4:00 PM
Tuesday, Thursday	2:00 PM – 3:15 PM

If we cannot get together during my regular office hours, I will be glad to make an appointment to meet with you at another, mutually acceptable, time. Please feel free to call me at home if need be, preferably before 9:00 PM. My home phone number is 327-5219.

3. There will be times when I will contact you through electronic mail. Therefore, you need to read your e-mail at least once every day. I will use e-mail when necessary to make or change assignments and to provide other information that you need. There may also be times when I will send you Microsoft Word, Microsoft Excel, and/or pdf documents attached to email messages; you are responsible for knowing how to save and print these documents. You will be held

responsible for all information and assignments or changes in assignments that are sent to you by email. My e-mail address is mcmahon@rhodes.edu.

4. There will also be times when I want you to retrieve information (Word, Excel, html, and/or pdf files) from my folder on the Academic Department and Program Fileserver, and you will need to access my Inbox on the fileserver in order to turn in your short summary papers. You are responsible for knowing how to use this server.

To get to the files in my Econ 101 folder, open the Rhodes home page (<http://www.rhodes.edu/>), highlight the address, and replace it with this fileserver address:

\\fileserver1\Acad_Dept_Pgm\Econ_Bus\McMahon_Marshall\Public\ec101

[Note: In the fileserver address, you need an underline, _, between words to indicate spaces.]

Once you have done this, you can create a shortcut on your desktop so that it will be easier to get to my folder in the future.

Similarly, to place your papers in my InBox, replace the home page address with:

\\fileserver1\Acad_Dept_Pgm\Econ_Bus\McMahon_Marshall

and move your paper into my InBox. [See “Note” above.]

5. If you have problems with email, the fileserver, or the use of the InBox, consult the staff of Information Technology Services. The ITS Helpdesk extension is 4357. It is your responsibility to handle any information technology problems that arise in this way.

6. I usually make some changes in the way this course is conducted from one semester to the next. You must not assume that something you have heard through the grapevine about this course in the past will necessarily apply to this semester. This syllabus and any modifications I make in class are the only reliable sources for information about the course.

7. I try to enjoy class and to make it enjoyable for you. I have been told that my casual, not infrequently irreverent, attitude in class leads students to assume I have relaxed standards for student performance. I do not, and it would be a terrible mistake for you to act on this assumption.

8. In determining your grade for the semester, I will compute a weighted arithmetic mean of five grades—the average on your short summary papers (20%), the average on your two longer analytical paper grades (30%), the grade on your midterm exam (20%), and the grade on your final exam (30%). If you choose to write the extra-credit book review, your points on the review (up to the 5 point maximum) will be added to your average. The resulting number will be rounded to the nearest tenth and converted to a letter grade as follows: 97.0 or above will be an A (there is no A+ for a course grade), 93.0 – 96.9 will also be an A, 90.0 – 92.9 will be an A-, 87.0 – 89.9 will be a B+, 83.0 – 86.9 will be a B, 80.0 – 82.9 will be a B-, and so on.

After computing your grade as indicated, I may adjust it up or down for class attendance and contribution, progress during the term, and such intangible factors as apparent effort or lack thereof. In some cases, such adjustments might change a grade by as much as one-third of a letter (e.g., from a B to a B+, or vice-versa).

Preliminary assignments for Econ 101, McMahon, Spring 2004

Please note: In the reading assignments, *Micro* is short for *Microeconomics*, Sixth Edition, by Robert S. Pindyck and Daniel L. Rubinfeld and *Dead* is short for *New Ideas from Dead*

Economists, Revised Edition, by Todd G. Buchholz. See page 7 of the syllabus for instructions on accessing the files server.

Scarcity and marginal analysis: Maximization and minimization (objective 1)

August 26

Read carefully the syllabus I sent to you by email. The syllabus is also available in my Econ 101 folder on the files server.

Skim pages 3 – 11 in *Micro*.

Read pages xi – xviii and 10 – 41 in *Dead*. Think about Smith’s understanding of human nature—how to describe it and whether or not you think this is an adequate representation of human nature. Consider also Smith’s views on the way that markets work with human nature so that society as a whole benefits. Also in the reading in *Dead*, think about the additions Hayek and Friedman made to Smith’s basic point(s). We will talk about this reading in class, and then you will do your first one-page summary. Normally, we will not talk about the readings you are to summarize before you turn in your short paper.

August 31

Short summary of the reading in *Dead* centering on Smith, Hayek, and Friedman due by noon.

See “Exams and Papers” in the syllabus for instructions regarding this short summary paper.

Read pages 42 – 90, and 147 – 174 of *Dead*.

From the files server, download and print “notesmax.doc”. Read and study this document carefully and bring it to class on this date.

September 2

Reread, review, and study carefully “notesmax.doc”. Learn the definitions of the terms in ***bold italics*** (e.g., ***opportunity cost***).

WARNING: If you do not “reread and study” or “review and study” whenever that is the assignment, you will cause yourself unnecessary grief.

WARNING: When the definitions I give you differ from those in the text, there is a reason. You are to know and use the ones I give you.

September 7

Short summary of the reading in *Dead* centering on Marshall’s marginal analysis (pages 147 – 174) due by noon.

From the files server, download, print, read, and think about “TNBprob1.doc”. (Please do not yet open the three documents entitled “TNBprob[2,3,4].doc”.) Read 19 – 32 and 128 – 130 in *Micro* for a preview of where we are headed. We will come back to these pages and study them in depth later. Bring *Micro* and “TNBprob1.doc” to class on this date. From the files server, download and print “timelog.xls” to keep track of how you use your time over the seven day period September 8 – 14, inclusive. Bring your completed time log to class on September 16.

September 9

Do your best to fill in the columns in the table you printed (“TNBprob1.doc”). By interpolating, also add rows for $q_x = 0.5, 1.5, \text{ etc.}$, down to and including 8.5, and fill in the corresponding columns for these rows. Then, draw two graphs on a single page using the data points given in the table: On the first graph, plot TB, TC, and TNB on the vertical axis and q_x on the horizontal axis. On the second graph, drawn directly under the first graph, plot MB, MC, and MNB on the vertical axis and q_x on the horizontal axis using the same scale for this horizontal axis that you

used for the plot of TB, TC, and TNB. I encourage you to work with other students in the class on this and similar assignments. When you have done the very best you can, from the ec101 folder in my folder on the academic volume, download, print “TNBprob[2,3,4].doc”. Compare your results to those you downloaded and printed, and come to class prepared to ask questions. Bring to class both your work and a printed copy of “TNBprob[2,3,4].doc”.

Reread pages 128 – 131 in *Micro* and think about the relationship between “consumer surplus” and what we have identified as TNB.

September 14

Read and write a short summary of “The health of nations: A survey of health-care finance” from *The Economist*, July 17, 2004, pages 1 – 19, on reserve in the library. Your summary is due by noon. Focus on the common problems and attempted solutions in the nations included in the survey.

Review and study all of the material assigned and covered in class to date.

The household’s decisions and utility theory (objective 2)

September 16

Bring your completed time log to class.

Reread pages 128 – 131 in *Micro* and think about the relationship between consumer surplus and what we have identified as TNB. From the fileserver, download and print “consumer.doc” and “cardutil.doc”. Read and study these documents carefully. Learn the definitions of the terms in ***bold italics*** (e.g., ***market demand***) in “consumer.doc”, and do your best to work the problem in “cardutil.doc”. As before and as always, I encourage you to work with other students in the class on this assignment.

September 21

On the fileserver, in the “healthcare” folder, you will find a Power Point presentation entitled “ahcshow.ppt.” View this presentation and think about the messages contained therein and their relationship to the reading you did from *The Economist*. Also read and think about the points made in “clintonhealth.doc” and “barneshealth.mht” in this same folder.

Read and study pages 61 – 89 and 92 – 97 in *Micro*.

When you have done the very best you can on the cardinal utility problem, download and print “cardutillsol1.xls”, and compare with your results. Come to class prepared to clarify any questions you have about this problem.

September 23

Review and study “consumer.doc”, “cardutil.doc”, and pages 61 – 89 and 92 - 97 in *Micro*.

September 28

Read and study pages 107 – 131 in *Micro*.

If you have an interest in calculus, read pages 145 – 152 in *Micro*.

Review and study pages 19 – 32 and read and study pages 33 – 46 and 55 – 56 in *Micro*.

September 30

Your health-care paper is due at the beginning of class.

Review and study pages 19 – 46, 55 – 56, and 107 – 131 in *Micro*.

October 5

Review and study for the midterm exam.

October 7

Midterm exam

The firm's decisions and production theory (objective 3)

October 12

Read and study pages 187 – 242 in *Micro*.

If you have an interest in calculus, read pages 256 – 260.

Read and study pages 674 – 682. We will not cover this material in class, but try to get as much from this appendix as possible. In particular, do your best to get the basic idea of “regression analysis.” You may want to refer back to this appendix from time to time.

October 14

Review and study the assignment for October 12.

From the fileserver, download and print “prodcost.doc”. Read the first two pages of this document carefully several times, and learn the definitions of the terms in ***bold italics*** (e.g., “***production function***”). Also read through Part A of the production and cost problem contained in these notes and study the graph on page 5 of the notes. You do not need to begin working on the problem (although you certainly may), but you do need to be familiar with it before you come to class.

October 19

Fall Recess, no class

October 21

Do your best to work the problem in “prodcost.doc”. As always, I encourage you to work with other students in the class on this assignment. When you have done the very best you can on your own, download and print “LRcost.xls” and “SRcost.xls” from the fileserver. Compare your results to those you downloaded and printed, and come to class prepared to ask questions. Bring both your work and your printed copies of “LRcost.xls” and “SRcost.xls”.

October 26

Review and study the assignments for October 12 – 21.

Read pages 91 – 146 of *Dead*. As you do so, think about the similarities and differences between John Stuart Mill and Karl Marx. Turn in a short summary of this assignment by noon.

**Markets under perfect competition: Supply, demand and important social consequences
(objectives 4 & 5)**

October 28

Review and study pages 19 – 46, and read and study pages 261 – 295 in *Micro*.

November 2

Review and study pages 261 – 295, and read and study pages 299 – 333 in *Micro*. Download, print, think about, and bring to class “catfish.doc”.

November 4

Read pages 515 – 543 in *Micro*. We will return to the topics in these pages with a slightly different approach; for now, work on the basic ideas and the familiar concepts.

November 9

Read the articles contained in the “livingwage” folder on the fileserver and write a summary of the basic points and the different perspectives you find there. Your summary is due by noon.

Conclusions and complications: Market imperfection and other real-world complications, social consequences and the role of government (objectives 6 – 8)

November 11

Read and study pages 337 – 377 and 381 – 386 in *Micro*.

November 16

Skim pages 387 – 397, read and study pages 435 – 441, and skim pages 442 – 468 in *Micro*.

November 18

Review and study the previous two assignments.

From the fileserver, download, print, read, and begin working “notperfect.doc”

November 23

Your paper on the living wage is due at the beginning of class.

November 25

Thanksgiving recess, no class

November 30

Read pages 247 – 274 in *Dead* and write a summary of the main points. Your summary is due by noon.

December 2 and December 7

To be assigned later.

December 11

Final exam, 5:30 – 8:00 PM for 3:30 section and others who so desire

December 15

Final exam, 1:00 – 3:30 PM for 12:30 section and others who so desire