

Economics 101: Introduction to Economics

Fall 2009

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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. 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 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 ten 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 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. If you are absent and miss a quiz, the grade of zero will be un-droppable.

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: TBA.

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 17.**

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.

Russell Roberts, *The Price of Everything*. This is a novel that applies solid economic analysis.

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.

Other readings will be made available in class, in the public folder, and by email.

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 1030 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 papers worth 100 points each. The first will be on a topic we will discuss in class. The second will be a review of Russell Roberts' *The Price of Everything*.
3. Quizzes and Homework: 10 points each. I will count your top eight.
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 8**. The second exam is scheduled for **Thursday, November 12**. The final exam for the 2:00 PM class will take place on **Friday, December 11 at 8:30 AM**. The final exam for the 3:30 PM class will take place on **Saturday, December 12 at 5:30 PM**.

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 Tuesday, December 8.**

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 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. Your papers will be no more than 750 words long, not including 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. **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 26	No Class, but I will be available in my office from 2-3 if you have any questions.
Thursday, August 27	Review the syllabus and put important dates on your calendar. Read "Ten Key Elements of Economics" and be prepared to discuss chapters 1-2 of Thomas Sowell's <i>A Conflict of Visions</i> . Students on the waitlist will be added to the course if spots open up. Objectives: 1. State and explain the Ten Key Elements of Economics. 2. Identify and explain the differences between the Constrained and Unconstrained Visions.
Week 2: A Pre-Analytic Vision and Economic Principles: Supply and Demand, Part I.	
Tuesday, September 1	Finish reading <i>Conflict</i> : re-read chapters 1-2, skim chapters 3-4, read chapter 4, skim chapters 6-8, read chapter 9 and discuss it with your study group. Review "Elements" and skim Landsburg, chapter 19. Objectives: 1. State and explain the Ten Key Elements of Economics. 2. Identify and explain the key differences between the Constrained and Unconstrained Visions. 3. Explain how trade creates wealth.
Thursday, September 3	Supply and Demand: Demand. Landsburg, pp. 1-22. CEE articles: supply, demand, opportunity cost Sowell, "Economic Trade-offs" Objectives: 1. Define the concept of opportunity cost. 2. Explain the Law of Demand. 3. Discuss Thomas Sowell's chapter trade-offs. 4. Draw and explain demand curves.
Week 3: Principles of Economic Analysis: Supply and Demand, Part I	
Tuesday, September 8	Supply and Demand: Supply. Landsburg, pp. 1-22. CEE articles: supply, demand, opportunity cost Harford, "Competitive Markets" Objectives: 1. Explain the Law of Supply. 2. Discuss Tim Harford's chapter on competitive markets.
Thursday, September 10	Equilibrium and its applications. Landsburg, pp. 1-22. Objectives: 1. Identify equilibrium graphically and mathematically, and explain it verbally. 2. Explain how changing market conditions change equilibrium prices and quantities. 3. Use appropriate diagrams to explain how policies affect prices and quantities.
Week 4: Trade and Wealth in a Market Economy	

Tuesday, September 15	Elasticity and its applications. Landsburg, pp. 98-102. Objective: 1. Calculate, explain, and apply the concepts of own-price, cross-price, and income elasticity.
Thursday, September 17 Last day for accommodations from ODS.	Specialization and gains from trade. Landsburg, 2.1-2.2. CEE articles: Free Trade, Standards of Living and Modern Economic Growth Objectives: 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, September 22	Specialization and gains from trade. Landsburg, 2.1-2.2 Discuss “The Economic Organization of a POW Camp” Objectives: 1. Explain how specialization and trade create wealth and conserve resources. 2. Identify prices at which people will agree to trade. 3. Explain why they will agree to trade at these prices. 4. Discuss “The Economic Organization of a POW Camp”
Thursday, September 24	Unlimited Wants and Limited Means: Individual Tastes and Budget Constraints. Landsburg, 3.1-3.3. Objectives: 1. Explain the properties of consumer preferences using an appropriate diagram. 2. Explain the properties of budget constraints using an appropriate diagram.
Week 6: Consumer Behavior and Market Demand	
Tuesday, September 29	Analyzing changes in prices and incomes. Landsburg, 3.1-3.3, Chapter 4. Objectives: 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.
Thursday, October 1	Deriving the Demand Curve and identifying income and substitution effects. Landsburg, Chapter 4. Objectives: 1. Use an appropriate diagram to derive a market demand curve from individual choices. 2. You will be able to identify and explain income and substitution effects.
Week 7: Buffer, Review, and Midterm Exam #1	
Tuesday, October 6	Buffer and Review
Thursday, October 8	Midterm Exam #1 Note: Two scholars will be on campus to discuss Adam Smith’s <i>The Theory of Moral Sentiments</i> .
Week 8: The Theory of the Firm	
Tuesday, October 13	Firm Decisions in the Short Run. Landsburg 5.1-5.2 Objectives: 1. Use the Element that “Decisions are Made at the Margin” to describe a firm’s production decisions. 2. Use different cost concepts to determine whether a firm should continue to produce or shut down in the short run.

	3. Explain how we know that a firm is maximizing profits in the short run.
Thursday, October 15	Firm Decisions in the Long Run. Landsburg 6.1-6.3. 1. Explain why all firms will earn zero profits in the long run. 2. Describe the “break-even price.” 3. Explain the signals that profits and losses send in a market economy.
Week 9: Fall Recess and Competitive Markets in the Long Run	
Tuesday, October 20	Fall Recess. No Class.
Thursday, October 22	Increasing, Constant, and Decreasing Cost Industries: Landsburg 7.1-7.2 1. Explain the differences between increasing, constant, and decreasing cost industries. 2. Apply this insight to policy questions.
Week 10: Supply and Demand II: The Analysis of Competitive Markets	
Tuesday, October 27	Efficient Markets, Imperfect Government. Landburg 8.1-8.3 Review Harford chapter on competitive markets. Other readings TBA. Objectives: 1. Define and explain the concepts of consumer and producer surplus. 2. Use appropriate diagrams to explain how government intervention reduces welfare in an efficient, competitive market.
Thursday, October 29	Efficient Markets, Imperfect Government. Landburg 8.1-8.3 Review Harford chapter on competitive markets. Other readings TBA. Objectives: 1. Define and explain the concepts of consumer and producer surplus. 2. Use appropriate diagrams to explain how government intervention reduces welfare in an efficient, competitive market.
Week 11: Supply and Demand II: The Analysis of Competitive Markets	
Tuesday, November 3	Markets linked across space and time. Landsburg 9.1 “The Social Function of Stock Speculators,” http://mises.org/story/2381 “The Social Function of Futures Markets,” http://mises.org/story/2399 “The SEC Short Sells Us Down the River,” http://mises.org/story/3139 1. Use appropriate diagrams to show how markets eliminate opportunities for arbitrage. 2. Use the ideas developed to predict when humanity will run out of oil.
Thursday, November 5	Topics and Applications in Supply and Demand Analysis. Reading Assignments TBA.
Week 12: Midterm #2	
Tuesday, November 10	Buffer and Review Note: Economic Historian Robert Higgs will visit campus to discuss his research on The Great Depression.
Thursday, November 12	Midterm Exam #2
Week 13: Price-Taking and Price Searching	
Tuesday, November 17	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 and marginal revenue curves for firms with

	<p>market power.</p> <p>3. Explain why monopolies are inefficient.</p>
Thursday, November 19	<p>Market Power, Landsburg 10.1-10.2, 11.4-11.5</p> <p>CEE articles: antitrust, monopoly</p> <p>Objectives:</p> <p>4. Discuss the differences between monopoly and competition.</p> <p>5. Explain the shape of the demand and marginal revenue curves for firms with market power.</p> <p>1. Explain why monopolies are inefficient.</p>
Week 14: Markets and Government	
Tuesday, November 24	<p>Market Power, Landsburg 10.1-10.3, 11.4-11.5</p> <p>Other readings TBA</p> <p>Objectives:</p> <p>2. Explain why natural monopolies emerge.</p> <p>1. Define and explain the differences between types of price discrimination.</p>
Thursday, November 26	<p>Externalities and Public Goods. Landsburg 13.1-13.3</p> <p>CEE Article: public goods and externalities</p> <p>Objectives:</p> <p>2. Explain why marginal social costs and benefits are not equal to marginal private costs and benefits when there are externalities.</p> <p>3. Explain why it will be difficult for the unregulated market to provide public goods.</p> <p>1. Explain how government intervention can improve welfare when there are externalities.</p>
Week 15: Markets and Government	
Tuesday, December 1	<p>Externalities and Public Goods. Landsburg 13.1-13.3</p> <p>CEE Articles: Tragedy of the Commons, Property Rights</p> <p>EconTalk Podcast: “The Tragedy of the Commons and the Implications for Environmental Regulation”</p> <p>Objectives:</p> <p>1. Explain why poorly-defined private property rights lead to over-exploitation of common property resources.</p> <p>2. Explain how clearly-defined private property rights can mitigate externalities in the absence of government intervention.</p> <p>Explain why we don't worry about chicken extinction while we do worry about panda extinction.</p>
Thursday, December 3	<p>Public Choice Theory.</p> <p>CEE Article: Public Choice Theory.</p> <p>Other Readings TBA.</p> <p>Objectives:</p> <p>1. Discuss the pros and cons of alternatives to the market.</p> <p>2. Discuss the information problems facing government actors.</p> <p>Explore the implications of the principle that incentives matter for the analysis of government.</p>
Week 16: Markets and Government	
Tuesday, December 8	Buffer and Review. Review of <i>The Price of Everything</i> due at the beginning of class.
Wednesday, December 9	Review Session. Time TBA.
Friday, Dec. 11	Exam for 2:00 PM Class—8:30 AM

Exams

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 Tuesday, December 8. You may not change your exam date after Tuesday, December 8 at 6:00 PM.
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 the 2:00 class begins on Friday, 12/11. 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 8.
4. If you decide to switch exam times and later decide you want to switch back, you can do so until Tuesday, December 8 at 6:00 PM. After this time you must take the exam at the time for which you are registered.

⁴ See the College Catalogue, p. 73.