

Economics 101: Introduction to Economics
Spring 2007

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MWF 9:00-9:50 (Section 1)

MWF 10:00-10:50 (Section 2)

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Introduction to Economics

Welcome to Economics 101. Economics has been defined as the “social science that seeks to analyze and describe the production, distribution, and consumption of wealth” (Encyclopedia Britannica),¹ “the study of how people use their limited resources in an attempt to satisfy unlimited wants” (dictionary.com), and “the science which studies human behavior as a relationship between ends and scarce means which have alternative uses” (Lionel Robbins, *An Essay on the Nature and Significance of Economic Science*).² In this course, we will apply these insights to individual and group behavior in a variety of settings. The Rhodes College Catalogue describes the course 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.”³

This course, microeconomics, studies the behavior of consumers and firms in a market economy. We will talk about topics like supply, demand, competition, and prices. The second course in the sequence (macroeconomics) studies the aggregate economy and discusses topics like gross domestic product, inflation, and unemployment. Economics provides us with a way of thinking about the world that explicitly acknowledges how people respond to incentives. This will empower us to examine a wide range of issues, including many that are not explicitly “economic.”

My goal for this course is to help you learn to think like an economist. This syllabus provides a tentative guide to the course. The following pages consist of a description of the course, discussions of how the course fits the Rhodes Vision and the goals of the Department of Economics and Business Administration, and an outline. **The assignments and course outline are subject to change.**

¹ <http://www.britannica.com/eb/article-9109547?query=Economics&ct=>

² Quoted in James D. Gwartney, Richard L. Stroup, Russell S. Sobel, and David A. MacPherson, *Microeconomics: Private and Public Choice*, p. 5.

³ <http://www.rhodes.edu/images/content/economics.business.adminsitration.pdf>.

Economics and the Rhodes Vision

This course will focus on several key issues: the role and relevance of scarcity, 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 for each human wellbeing. 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 manifests itself in “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.

Economics and the Goals of the Department

Among the goals of the Department of Economics and Business Administration are to help graduates “understand and appreciate the vital connections between all the disciplines represented in the department so they can make fully-informed and reasoned business judgments,” to ensure that graduates “are confident and capable,” and to ensure that “graduates are grounded not only in the theories of all disciplines but also in their own sense of right and wrong that will guide all important decisions they must make.” Economic principles like opportunity cost and supply and demand are at the foundation of the other business disciplines. At the same time, the insights of other business disciplines are important components of economic analysis. Again, economics *as such* does not produce moral judgments, but careful economic reasoning can tell us whether a proposed course of action is conducive to a given set of goals.

Economics 101 and Foundation Requirements

Sections 1 and 2 of Economics 101 fulfill two foundation requirements, F2 (“Develop Excellent in Written Communication”) and F8 (“Explore and understand the systematic analysis of human interaction and contemporary institutions”). We will do the first through a series of exercises in writing, editing, and revision as described under “Assignments and Grades.” Economics is, first and foremost, a way of thinking about the world; it is an exercise in “systematic analysis of human interaction and contemporary institutions.” What has been called “the economic way of thinking” is indispensable to careful, informed analysis. This will manifest itself in the writing assignments, exercises, and exams.

How to Succeed in 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 approximately eight or nine hours per week outside the classroom on the work for this course.** The best way to prepare is to study any figures, tables, captions, and definitions in the assignment before doing the reading. Take careful notes in class. There is no One Right Way to take notes; however, <http://www.studygs.net/index.htm> has some suggestions.

You are responsible for all material, announcements, and assignments. If you have to miss class for any reason, you will need to get the relevant information from a classmate. In addition, I will send assignments and updates via email to your @rhodes.edu account. You are responsible for anything I send you via email. My advice: save the emails because they might come in handy as the semester progresses.

There are several things you should (and should not) do. First, re-copy your notes after every class meeting. Second, look for applications of the material in other readings. Third, ask questions during class and in office hours. Finally, follow in-class instructions. For your papers, I encourage you to discuss the theoretical material with your classmates, your study group, your friends, your grandmother, and anyone else who will listen. **You may not, however, share your written work with anyone except me or the staff at the writing center unless you are specifically instructed to do otherwise.**

The Honor Code

You are expected to abide by the Honor Code in all that you do for this course.

Readings

Robert Pindyck and Daniel Rubinfeld, *Microeconomics*, 6th ed. Hereafter referred to as PR. Pindyck and Rubinfeld cover the material in a very accessible way. The value of the book extends beyond this course: this is also a good book to have on the shelf for future reference. The chapters contain review notes where the authors point out where else in the book they have addressed certain topics.

Henry Hazlitt, *Economics in One Lesson*. The table of contents for an HTML version of the book is at <http://jim.com/econ/contents.html>. Copies will also be available in the bookstore.

Roger L. Miller, Daniel K. Benjamin, and Douglass C. North, *The Economics of Public Issues* (14th edition). Some of the topics will be supplemented with readings from *The Economics of Public Issues*. Five copies of the 14th edition are available on course reserve at Barret Library. Most of the chapters I will reference in class are available in the 13th edition.

Ludwig von Mises, *Human Action*. We will use small portions of this book to supplement the other readings. The sections we use will be available online, and the entire text can be downloaded free of charge from <http://www.mises.org/humanaction/pdf/humanaction.pdf>

I also recommend that you subscribe to the *Wall Street Journal*. The *Journal* contains a lot of information that is relevant to our class, and I will make reference to it periodically.

Additional readings relevant to the course material—generally from the popular press—will be made available in class, in the public folder on the academic fileserver, by email, and via WebCT.

Assignments and Grades

You will be graded based on the following: three short papers (60 points each), a “referee report” and a “letter to the editor” (40 points each), homework (40 points), a midterm exam (110 points), and a final exam (110 points). There will be several opportunities for extra credit. Your grade will be calculated by dividing the number of points you earn by 500. Letter grades will be assigned as follows:

460+ (92%): A	365+ (73%): C
440+ (88%): A-	350+ (70%): C-
425+ (85%): B+	335+ (67%): D+
410+ (82%): B	320+ (64%): D
395+ (79%): B-	300+ (60%): D-
380+ (76%): C+	299- (<60%): F

The Midterm

We will have the midterm in class on Friday, February 23. Both the Midterm and the Final will consist of objective answer and essay questions.

The Final

The comprehensive final exam will take place during regularly scheduled exam periods (Monday, April 30 at 5:30 PM for the 10:00 class, Saturday, 5/5 at 8:30 AM for the 9:00 class). **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 by the end of the day on Wednesday, April 25.** Learning will be rewarded: should your score on the final be higher than your score on the midterm, your midterm grade will be re-calculated as the weighted average of your grade on the midterm (one-third) and your grade on the final (two-thirds). Suppose, for example, that you score 120 points on the midterm and 150 points on the final. Your grade for the midterm will then be $(1/3)(120) + (2/3)(150) = 140$.

Homework

The homework grade will consist of short assignments worth five to ten points each. These may take the form of problem sets or short essays. The number of assignments has not yet been determined. You may work together, but I expect your work to be your own.

Writing Assignments

You will write three papers for this class. The first will be a paper about the nature of profit and loss. The second will analyze government intervention into the labor market. The third will analyze the concepts of market failure, government failure, and institutions. Each is discussed in greater detail here; more information about the assignments will be handed out in class.

Profit and Loss. Read the essay “That the Profit of One Man is the Dammage (sic) of Another” by Michel de Montaigne:

<http://www.uoregon.edu/~rbear/montaigne/1xxi.htm>

Your paper will evaluate and critique Montaigne’s argument in light of Henry Hazlitt’s *Economics in One Lesson* (primarily chapters 15 and 22, on prices and profits) and Chapter 24, Section 1 of Ludwig von Mises’ *Human Action* (available online, <http://www.mises.org/humanaction/chap24sec1.asp>). Your essay will answer four questions: what are profits and losses? What is their role in society? How do they guide entrepreneurs? How can this inform government policy?

The Minimum Wage. During the 2006 election, several states increased their minimum wages. The Democratic Party has promised that one of their first acts as the majority party in Congress will be to increase the federal minimum wage. This paper will analyze the impact of the minimum wage on markets for different kinds of labor. Your essay will do the following:

1. State arguments for and against the minimum wage.
2. Summarize evidence on the impact of the minimum wage.
3. Discuss the short-run and long-run effects of an increase in the minimum wage.
4. Make a recommendation. Should the federal government increase the minimum wage? Why or why not?

Markets and Government. Finally, many economists favor free markets. However, there are some cases in which markets may fail to produce efficient outcomes. What are they? How might we respond with government policy? What new problems are created by these policy responses? How might they be appropriate or inappropriate?

Referee Reports and Letters to the Editor. For your minimum wage papers, you will also write a one-page “referee report” on the first draft of another student’s paper. You will also revise this paper in light of another student’s comments on your paper and return it to me with a one-page letter to the editor detailing how you have addressed the issues raised by the referee.

Turning in the Papers

Each of the three papers will be six pages long, not including the cover sheet, the bibliography, or any graphs you may use. Your papers are due by noon on the assigned due date. You may turn in the paper by noon on the following day for half-credit. Papers turned in more than 24 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. Download “CoverSheet.doc” from the public folder and type the following pledge in the box labeled “pledge:”

Pledge: I have neither given nor received any unauthorized aid on this paper. This paper represents my own work in that I have followed instructions and that I understand the graphs and explanations.

Unsigned, unpledged work will not be accepted. I encourage you to discuss the theoretical material in these papers with your classmates. “Unauthorized aid” is defined as sharing your written work or your sources with anyone other than me or the staff at the writing center.

Academic Support

Tutoring: the tutor this semester will be Tiffany Wilding. She will be available on Tuesday and Thursday evenings from 7-9 in Buckman 330.

Writing Center: The Writing Center is located in 212 Barret Library. For your papers, I encourage you to use the Writing Center early and often.

<http://www.rhodes.edu/writingcenter>, writingcenter@rhodes.edu, x3393.

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). If the College has granted you special accommodations, please present the relevant paperwork to me no later than **February 2**.

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

Economics Goes to the Movies

Professor Hammock (who teaches econ 102) and I will show several movies with economics-related themes. We will talk about each of these in greater detail as the semester progresses, and each will provide an opportunity to earn bonus points. A tentative schedule, subject to change:

January 25: *Wall Street*

February 13: *Singin' in the Rain*

March 8: TBA, either *Tucker* or *The Main in the White Suit*

March 27: *Trading Places*

April 19: *The High Cost of a Low Price*

Course Outline

This list is ambitious, preliminary, and subject to change. If we deviate from the list, fear not. If we fall behind this list, 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. “Selected readings” will be assigned appropriately.

Week 1: Principles of Economic Analysis

1/10: Day 1. Familiarize yourself with the syllabus.

1/12: Read William Graham Sumner’s “The Forgotten Man,” available at <http://www.blupete.com/Literature/Essays/Best/SummerForgotten.htm> as well as the prefaces and chapters 1, 2, and 25 of Hazlitt. Also read and be prepared to discuss “Ten Key Elements of Economics” by James Gwartney et al., available at http://www.perc.org/pdf/ten_econ.pdf.

Week 2: Principles of Economic Analysis

1/15: Martin Luther King Day, NO CLASS

1/17: Turn in assignment #1. Read and review Sumner, Gwartney et al., Hazlitt. Also read PR Chapter 1 (read pp. 3-11, skim pp. 12-15, read pp. 15-17). Read the pages on the production possibilities frontier on pages 596-598 and study figure 16.9.

1/19: Read and review all assignments up to this point. Look up “profit” and “loss” in the textbook and online. Read “I, Pencil” by Leonard E. Read. Skim chapter 24, section 1 of Mises’ *Human Action*, available online at <http://www.fee.org/pdf/books/I,%20Pencil%202006.pdf>, the Montaigne essay linked in the syllabus, and Hazlitt, chapters 15 and 22.

Week 3: Basic Supply and Demand, Consumer Behavior

1/22: PR Chapter 2: Supply and Demand, pp. 19-32, effects of government intervention, 55-57; Hazlitt chapters 17-19

1/24: Review Supply and Demand, PR pp. 19-32; PR elasticity, pp. 32-40, 42-46, 51-54, Hazlitt chapters 17-19

1/25: Movie: *Wall Street*

1/26: Unlimited wants, limited means: PR chapter 3, pp. 61-89, consumer choice and marginal utility, pp. 83-89, 92-95

Week 4: Consumer Behavior

We will have our first round of one-on-one meetings this week.

1/29: Comparative Advantage and Trade, selected readings.

Paper #1 (Profit and Loss) Due.

1/31: PR chapter 3: consumer choice and marginal utility, pp. 83-89, 92-95;

2/2: PR Chapter 4: individual demand, pp. 107-116

Week 5: Consumer Behavior and Demand

2/5: PR chapter 4: income and substitution effects, pp. 116-121

2/7: PR chapter 4: demand, pp. 122-127; consumer surplus, pp. 128-131

2/9: Buffer.

Week 6: Production

2/12: PR chapter 6: production technology, pp. 187-190; labor, pp. 190-199.111, PR chapter 6: production with two inputs, pp. 199-207

2/13: Movie: *Singin’ in the Rain*

2/14: PR chapter 7: returns to scale, pp. 207-210; Measuring costs, pp. 213-219

2/16: PR chapter 7: costs in the SR, pp. 220-225; costs in the LR, pp. 225-234; skim pp. 234-236

Week 7: Midterm Exam

2/19: PR chapter 7: economies of scale, pp. 237-238; short- and long-run cost, pp. 238-239; economies of scope, skim pp. 240-242

2/21: Review and Recap.

2/23: Midterm Exam in Class.

Week 8: Profit Maximization and Competitive Supply

2/26: PR chapter 8: perfectly competitive markets, pp. 261-264; profit maximization, pp. 264-273

2/28: PR, chapter 8: short- and long-run supply curves, pp. 273-287

3/2: PR, chapter 8: short- and long-run supply curves, pp. 273-287.

Week 9: The Analysis of Competitive Markets

We will have our second round of one-on-one meetings this week.

3/5: PR chapter 9: Consumer Surplus and Producer Surplus. 299-305; efficiency of competitive markets, pp. 306-310; Review Hazlitt, chapters 1, 15, 17-19; Selected readings from *Economics of Public Issues*

3/7: Application: Health Care: PR pp. 307-309 and selected readings

3/8: Movie, TBA

3/9: Wages and Labor Markets—selected readings.

3/9-3/18: Spring Break. No class.

Week 10: The Analysis of Competitive Markets (cont'd)

3/19: Wages and Labor Markets continued—selected readings.

3/21: Rent Control—Selected readings

3/23: Price Supports and Restrictions, PR chapter 9: pp. 314-326, selected readings

Week 11: The Analysis of Competitive Markets (cont'd)

3/26: PR chapter 9: tax incidence, pp. 326-332; selected readings.

3/27: Movie: *Trading Places*

3/28: Speculators and Markets for Information

Selections from Julian Simon, *The Ultimate Resource 2* (available online: www.juliansimon.com).

First Draft of Minimum Wage Paper due.

3/30: Paper Workshop: Writing, Revising, Reviewing.

Week 12: Price Taking and Price Searching: the Structure of Markets

4/2: PR chapter 10: monopoly, pp. 339-350; monopoly power, pp. 351-353; sources and costs of monopoly power, pp. 357-364. PR chapter 10: sources and costs of monopoly power, pp. 357-364

4/4: PR chapter 11: capturing consumer surplus and price discrimination, pp. 381-397. PR chapter 11: the two-part tariff, pp. 397-403; bundling, skim pp. 404-411, read pp. 411-415

4/6: Easter Recess. No Class.

Week 13: Price Taking and Price Searching: the Structure of Markets

4/9: Monopolistic Competition and Oligopoly, PR chapter 12 pp. 435-441, PR chapter 12 pp. 441-443

Final Version of Minimum Wage Paper (with “Letter to the Editor”) Due.

4/11: Monopolistic Competition and Oligopoly, PR chapter 12 pp. 435-441, PR chapter 12 pp. 441-443

4/13: PR chapter 18: externalities, pp. 641-645, correcting market failure, pp. 645-655 and selected readings.

Week 14: Institutions and Economic Performance

4/16: PR chapter 18: externalities and property rights, pp. 659-662; common property, pp. 662-665; PR chapter 18: Public Goods, pp. 665-671

4/18: Selected readings.

4/19: Movie, *The High Cost of A Low Price*

4/20: Selected readings.

Week 15: Course Summary

4/23: Buffer/course recap.

4/25: Review, summary, further directions. **“Market Failure/Government Failure” paper due.**

Final Exams

Monday, 4/30, 5:30 PM, 10:00 Class

Saturday, 5/5, 8:30 AM, 9:00 Class

Mark your exam time on a calendar ASAP. With my permission, you may take the exam with the other class. You may only take the exam at one of the two assigned times in Buckman 214. The exam for the 10:00 class will be considered “closed” at 8:00 PM on Monday, April 30. The exam for the 9:00 class will be considered “closed” at 11:00 AM on Saturday, May 5. NO EXCEPTIONS.