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Economics 101: Introduction to Economics

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

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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

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 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.

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.wikihow.com/Take-Perfect-Lecture-Notes> has some suggestions.

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. It will be cheaper to buy the book than to print it chapter-by-chapter.

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>

Murray Rothbard, *Man, Economy, and State with Power and Market*. We will also use several pages from Rothbard. What we use will be online, and you can download the full text from <http://www.mises.org/rothbard/mespm.PDF>.

Don Boudreaux, chairman of the department of economics at George Mason University, writes a regular column for the *Pittsburgh Tribune-Review* in which he explores basic economic subjects:

<http://www.pittsburghlive.com/x/pittsburghtrib/opinion/columnists/boudreaux/>

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

Assignments and Grades

You will be graded on the basis of four items: a midterm exam (160 points), a final exam (160 points), a short course paper (125 points), and quizzes (75 points). 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
440+ (88%): A-
425+ (85%): B+
410+ (82%): B
395+ (79%): B-
380+ (76%): C+
365+ (73%): C
350+ (70%): C-
335+ (67%): D+
320+ (64%): D
300+ (60%): D-
299- (<60%): F

The Midterm

The midterm will take place in class on Monday, October 9. Both the Midterm and the Final will consist of multiple choice, matching, fill-in-the-blank, and essay questions.

The Final

The comprehensive final exam will take place during regularly scheduled exam periods (Tuesday, 12/12 at 1:00 PM for the 9:00 class, Wednesday 12/13 at 8:30 AM for the 10:00 class). 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 (two thirds) and your grade on the final (one-third). 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 $(2/3)(120) + (1/3)(150) = 130$.

Quizzes

The quiz grade will consist of three short in-class or take-home assignments worth 25 points each. These may take the form of problem sets or short reaction papers. I reserve the right to assign additional quizzes and calculate your score using your three highest quiz scores. Honor Code status of the quizzes will be announced when they are assigned.

Course Paper

Your course paper will be five to ten pages long, and it will consider the following questions based on the assigned readings as well as the lectures and discussions:

1. What are profits and losses?
2. Where do they come from?
3. What is their role in society?

Your paper will be an extended reaction to the following essay by Montaigne:

XXI. That the Profit of One Man is the Damage of Another

“Demades the Athenian condemned one of his city, whose trade it was to sell the necessaries for funeral ceremonies, upon pretence that he demanded unreasonable profit, and that that profit could not accrue to him but by the death of a great number of people. A judgment that appears to be ill grounded, forasmuch as no profit whatever can possibly be made but at the expense of another, and that by the same rule he should condemn all gain of what kind soever. The merchant only thrives by the debauchery of youth; the husbandman by the dearness of grain; the architect by the ruin of buildings; lawyers, and officers of justice, by the suits and contentions of men; nay, even the honour and office of divines are derived from our death and vices. A physician takes no pleasure on the health even of his friends, says the ancient Greek comic writer, nor a soldier in the peace of his country, and so of the rest. And, which is yet worse, let every one but dive into his own bosom, and he will find his private wishes spring up and his secret hopes grow up at another’s expense. Upon which consideration it comes into my head, that Nature does not in this swerve from her general polity; for physicians hold, that the birth, nourishment, and increase of everything is the dissolution and corruption of another:

*Nam quodcumque suis mutatum finibus exit,
Continuo hoc mors est illius, quod fuit ante.*⁴”

You will turn in the paper in class on Wednesday, December 6. The paper will use 12-point Times New Roman type and default margins (one inch top and bottom, 1.25 inches left and right). Use appropriate citations. To receive full credit, the paper is due no later than noon on Wednesday, December 6. You may turn in the paper no later than noon on Thursday, December 7 for a 25 point penalty and no later than noon on Friday, December 8 for a 50 point penalty. No papers will be accepted later than noon on Friday, December 8.

I encourage you to discuss the topic with one another; however, your written work must be your own. You may share your written work with me and with the staff at the Writing Center. You may not share your written work with your classmates or the students in the other section.

⁴ “For, whatever from its own confines passes changed, this is at once the death of that which before it was.” *Lucretius*, ii. 752. The essay is taken from Robert Maynard Hutchins, Editor, *Great Books of the Western World*, v. 25: Montaigne. Chicago: Encyclopedia Britannica. Translated by Charles Cotton, edited by W. Carew Hazlitt, 1952, p. 42.

Academic Support

Tutoring: We are trying to arrange for a tutor to be available for all sections of Econ 101. I hope to have more information on this soon.

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

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

Study Skills Workshops: The College offers several seminars and workshops on study skills and time management. These include:

1. Time Management and Learning Strategy Workshop (8/29, 6:15; 8/30, 5:15, Clough 300).
2. Stress Management/Test Anxiety Workshop (9/5, 6:15, Clough 300)
3. Learning to Learn Workshop (9/13, 5:30-6:30, Hyde Hall)
4. Additional Time Management and Learning Strategy Workshops at dates TBD.

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 **Friday, September 1**.

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

Course Outline

Assignments are subject to change. I will provide you with more specific information in class or via email about each week's assignments as the semester progresses.

Week 1: Principles of Economic Analysis

8/23: Introduction: "Ten Key Elements of Economics" by James Gwartney et al., available at http://www.perc.org/pdf/ten_econ.pdf

8/25: "Ten Key Elements," PR Chapter 1 (read pp. 3-11, skim pp. 12-15, read pp. 15-17), Hazlitt prefaces, chapters 1, 25.

Week 2: Supply and Demand, Consumer Behavior

8/28: PR Chapter 2: S&D, pp. 19-32, 55-57; Hazlitt chapters 15, 17-19, 22

8/30: PR Chapter 2: elasticity, pp. 32-40, 41-46, 51-54

9/1: Finishing Supply and Demand, skim PR Chapter 3 pp. 61-65

Markets for Complements and Substitutes

"Special Accommodations" paperwork due 9/1

Week 3: Consumer Behavior

9/4: Labor Day, NO CLASS

9/6: PR chapter 3, consumer preferences (unlimited wants) and budget constraints (scarce means), pp. 61-83

9/8: PR chapter 3, consumer choice and marginal utility, pp. 83-89, 92-95

Week 4: Individual and Market Demand

9/11: PR chapter 3: marginal utility, pp. 92-95; PR Chapter 4: individual demand, pp. 107-116

9/13: PR chapter 4: income and substitution effects, pp. 116-121

9/15: PR chapter 4: demand, pp. 122-127; consumer surplus, pp. 128-131; Mises, "The Source of Prices"

Week 5: Production

9/18: "I, Pencil"; review Hazlitt chapter 15; Rothbard, chapter 8 section 1 (pp. 509-516; don't worry about Rothbard's discussion of interest)

9/19: Bill McKibben lecture on *The End of Nature* (not required, but recommended)

9/20: Describing Production

PR chapter 6: production technology, pp. 187-190; labor, pp. 190-199

9/22: PR chapter 6: production with two inputs, pp. 199-207; returns to scale, pp. 207-210

Week 6: The Cost of Production

9/25: PR chapter 7: Measuring costs, pp. 213-219

9/27: PR chapter 7: costs in the SR, pp. 220-225; costs in the LR, pp. 225-234; skim pp. 234-236

9/29: PR chapter 7: economies of scale, pp. 237-238; short- and long-run cost, pp. 238-239; economies of scope, skim pp. 240-242

Week 7: Midterm Exam

10/2: Tie up loose ends. Read Mises, *Human Action*, chapter 24, section 1; Review Hazlitt, chapter 22; Review Rothbard, Chapter 8, section 1.

10/4: Review and Recap.

10/6: Midterm Exam in class.

Week 8: Profit Maximization and Competitive Supply

10/9: Review exam. PR chapter 8: perfectly competitive markets, pp. 261-264; profit maximization, pp. 264-273

10/11: PR chapter 8: perfectly competitive markets, pp. 261-264; profit maximization, pp. 264-273

10/13: PR, chapter 8: short- and long-run supply curves, pp. 273-287

FALL RECESS BEGINS, 5:00 PM

Week 9: The Analysis of Competitive Markets

10/16: Fall Recess—NO CLASS

10/18: PR chapter 9: CS and PS, pp. 299-305; efficiency of competitive markets, pp. 306-310; Review Hazlitt, chapters 1, 15, 17-19; Selected readings from *Economics of Public Issues*

10/20: Application: Health Care: PR pp. 307-309 and selected readings

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

10/23: The Minimum Wage in Theory and Practice

PR chapter 9: minimum prices, pp. 310-312

Selected readings from *Economics of Public Issues*

Selected readings on wage policy

10/25: Rent Control in Theory and Practice: Selected readings

10/27: Price Supports and Restriction

PR chapter 9: pp. 314-326

Selected readings from Hazlitt, *Economics of Public Issues*, other sources

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

10/30: Speculators and Markets for Information

PR chapter 17, pp. 613-619

Selected readings

11/1: PR chapter 9: tax incidence, pp. 326-332; selected readings

11/3: PR chapter 10: monopoly, pp. 339-350; monopoly power, pp. 351-353; sources and costs of monopoly power, pp. 357-364

Week 12: Market Structure

11/6: PR chapter 10: sources and costs of monopoly power, pp. 357-364

PR chapter 11: capturing consumer surplus and price discrimination, pp. 381-397

11/8: PR chapter 11: the two-part tariff, pp. 397-403; bundling, skim pp. 404-411, read pp. 411-415

11/10: Monopolistic Competition and Oligopoly (PR chapter 12)

PR chapter 12 pp. 435-441, PR chapter 12 pp. 441-443

Week 13: Externalities and Public Goods

11/13: PR chapter 18: externalities, pp. 641-645, correcting market failure, pp. 645-655

Tyler Cowen, "Public Goods and Externalities," *Concise Encyclopedia of Economics*:

<http://www.econlib.org/library/ENC/PublicGoodsandExternalities.html>

Ludwig von Mises, *Human Action*, chapter 23, Section 6 on property rights:

<http://www.mises.org/humanaction/chap23sec6.asp>

11/15: PR chapter 18: externalities and property rights, pp. 659-662; common property, pp. 662-665

Review Cowen, Mises

Selected Readings

11/17: PR chapter 18: Public Goods, pp. 665-671

Week 14: Choose Your Own Adventure: Selected Applications of Microeconomics

Week 15 (11/27, 11/29, 12/1): Institutions and Economic Performance

11/27: PR chapter 18: public goods, pp. 665-671

Selected readings

11/29: Economic Success and Failure: Long-Run Trends in the World Economy

Douglass C. North, "Institutions" (available via JSTOR)

Selected readings

12/1: FA Hayek, "The Use of Knowledge in Society," *American Economic Review* 35(4):519-530, September 1945. <http://www.econlib.org/library/Essays/hykKnw1.html>.

Douglass C. North, "Institutions" (available via JSTOR)

Jane S. Shaw, "Public Choice Theory"

<http://www.econlib.org/library/Enc/PublicChoiceTheory.html>

Week 16: Course Summary

12/4-12/6: Review, summary, further directions.

12/6: Course Papers Due. Review, summary, further directions.

12/8-12/15: Final Examinations

9:00 AM Class: Tuesday, 12/12 at 1:00 PM

10:00 AM Class: Wednesday, 12/13 at 8:30 AM