

Economics 101B  
CRN 23479

Introductory Economics

Spring 2008

MWF 11<sup>30</sup>–12<sup>20</sup>: Chambers 2187  
W 12<sup>30</sup>–1<sup>20</sup>: Chambers 2146

# INSTRUCTIONS & REQUIREMENTS

## ABOUT THIS COURSE

This course is an expository and analytical introduction to the basic issues of economic behavior, and of the domestic and international economies. We begin with some essential economic concepts: the notions of scarcity, opportunity cost, price, demand, supply, and description of technology. Two core sections constitute the remainder:

**Microeconomics** is the study of small decision-making units: a consumer, a worker, and a producer of an individual product. We learn, for instance, why a person usually buys fewer units when the price increases, and why the price increases when people buy more units; how producers decide on the number of workers to hire, how much to produce, or what price to charge. We consider the properties of perfect competition and its differences from monopoly, and review the case for government intervention in markets as, for instance, the pending anti-trust action against Microsoft. In closing this section we study the economic basis for and gains from international trade, ask why countries trade at all, what determines the pattern of trade, and what the cases are for and against barriers to trade.

**Macroeconomics** treats the nation as the unit of analysis. We begin with the definitions of key economic indicators of common interest: unemployment, inflation, interest rates, and national income and production. Competing theories offer different perspectives on the relationships between these variables; the Keynesian and Monetarist theories are prominent examples. We study the assumptions, predictions, and prescriptions of these theories within a global setting. An important issue of contention is the appropriate role of monetary and fiscal policies which governments use in attempts to reach desirable goals. Both economic theories, and their policy implications, are focal points of this section. A study of foreign exchange markets and exchange rates rounds out this section.

## COURSE REQUIREMENTS

- Five equally weighted graded assignments: 20%
- Up to five non-graded assignments.
- Two Reviews @ 25% each: 50%
- Final Examination: 30%

All students are expected to complete the assignments marked for grading. All assignments (but not tests) will be made available for downloading from your course page on <http://www.davidson.edu/academic/economics/kumar/students.htm>, my website. Assignments will not be distributed in class.

To receive any credit, assignments must be returned within the stated time limits. Prior permission from me is required for late submissions and absence from reviews. You should not seek exceptions unless there are exceptional circumstances for your request.

## TEXT

N. Gregory Mankiw, *Principles of Economics*, 4<sup>th</sup> edition, 2006. Thomson-SouthWestern. ISBN 0-324-22472-9.

## WEB RESOURCES

Useful websites exist on a wide variety of issues and provide you with current data. You can access many of these via the 'Links' page on my website, which are sorted by category. Go to <http://www.davidson.edu/academic/economics/kumar/kumar.htm>.

Several URLs are provided below to start you off.

### U.S. GOVERNMENT DATABASES AND POLICY LINKS

[www.whitehouse.gov/fsbr](http://www.whitehouse.gov/fsbr)  
[www.bea.doc.gov](http://www.bea.doc.gov)  
[www.census.gov](http://www.census.gov)  
[stats.bls.gov](http://stats.bls.gov)  
[www.stls.frb.org/fred](http://www.stls.frb.org/fred)

### ECONOMIC POLICY NEWS AND ANALYSIS

[www.economist.com](http://www.economist.com)  
[www.wsj.com](http://www.wsj.com)  
[slate.msn.com](http://slate.msn.com)  
[www.policy.com](http://www.policy.com)  
[netec.wustl.edu](http://netec.wustl.edu)

### INTERNATIONAL DATA AND ISSUES

[www.worldbank.org](http://www.worldbank.org)  
[www.imf.org](http://www.imf.org)  
[www.unsystem.org](http://www.unsystem.org)  
[www.oecd.org](http://www.oecd.org)

### OTHER USEFUL SITES (ADD YOUR OWN)

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## TEACHING ASSISTANT

An important resource person for you will be the Teaching Assistant for this course, whom I will introduce to you at the beginning of class. The Teaching Assistant will meet with the class on a regular basis and you should make an effort to get to know him/her.

## ECONOMICS CENTER

Staffed by economics majors and minors, tutorial help is available free of cost at the Economics Center. The Center is located in Chambers 2187 and is open to you on Su T W R between 8pm-11pm.

## OTHER RESOURCES

Reading widely is integral to a thorough understanding of the many new ideas we will cover. In addition to the websites listed above, the text shall be supplemented by handouts and other reading material. To make this course a rich learning experience, I encourage you to read [\*The Wall Street Journal\*](#) and [\*The Economist\*](#) regularly and listen often to economic news broadcasts.

## OFFICE HOURS

Monday and Friday 12:30-1:30  
Tuesday and Thursday 10:00-11:00

Get my [office hours and teaching schedule](#) online as well.

## REVIEW SCHEDULE

1<sup>st</sup> Review: Wednesday, February 27, 2008.  
2<sup>nd</sup> Review: Wednesday, April 16, 2008.

# I. INTRODUCTION TO MARKETS

## 1. FUNDAMENTALS OF ECONOMICS

### A. Thinking Like An Economist

Basic Principles of Economics  
Microeconomics v. Macroeconomics  
Positive v. Normative Economics  
Economic Modeling: assumptions, graphs, algebra

Chapter 1  
Chapter 2 (not p. 24-26)  
Ch. 2 Appendix

### B. The Motivation to Trade

Opportunity Cost and the PPF  
Opportunity Cost and Comparative Advantage  
Comparative Advantage as the source of Gains from Trade

Chapter 2 (p. 24-26)  
Chapter 3

## 2. DEMAND, SUPPLY, AND MARKET EQUILIBRIUM

Structure of Markets

Demand: Determinants of Individual Demand  
Demand Schedule, Curve and Function  
Change in Demand v. Change in Quantity Demanded  
Market Demand: Aggregation of Individual Demands

Supply: Determinants of, and Changes in, Supply  
Supply Schedule, Curve, and Function

Equilibrium: Interaction of Demand and Supply  
Comparative Statics: Changes in Demand and Supply

Chapter 4

## 3. ELASTICITY

Defining and Computing Elasticity  
Demand: Price, Income and Cross-Price Elasticity  
Elasticity and Revenue  
Supply: Price Elasticity  
An Application: Bumper Harvests and Farm Incomes

Chapter 5

## 4. GOVERNMENT INTERVENTION IN MARKETS

Price Controls: Price Floors and Price Ceilings  
Per-Unit Tax: Role of Elasticity

Chapter 6

## 5. ECONOMIC EFFICIENCY

Consumer Surplus and Producer Surplus  
Economic Efficiency  
Deadweight Loss (or Inefficiency) of Taxes

Chapters 7, 8

# II. MICROECONOMICS

## 6. CONSUMER THEORY

Budget Constraint  
Consumer Preferences: Indifference Curves, TU and MU  
The Optimal Purchase Rule  
Deriving the Demand Curve  
Brief Look at Income and Substitution Effects  
Example: how wages affect the Labor Supply

Chapter 21

7. **PRODUCTION AND COSTS IN THE SHORT-RUN** Chapter 13  
 Nature of Costs  
 Short-Run Production Function: Law of Diminishing Marginal Productivity  
 Opportunity and Accounting Costs  
 Measuring Costs: Fixed, Variable, Total, Average, and Marginal Costs  
 Short v. Long-Run Average Total Costs
8. **PERFECT COMPETITION** Chapter 14  
 What is it? When does it exist?  
 Firm's Demand Curve v. the Market Demand Curve: The effect of large numbers  
 Profit Maximization by the Firm  
 The Firm's Supply Curve: Importance of Marginal Costs  
 Shut-Down Condition in the Short-Run  
 The Long-Run Equilibrium of the Firm and the Industry
9. **IMPERFECT COMPETITION**
- A. **Imperfect Competition** Chapter 16 (p. 345-347)  
 Monopolistic Competition, Oligopoly, and Monopoly
- B. **Monopoly** Chapter 15  
 Sources of Monopoly  
 Profit Maximization by a Monopolist: Marginal Revenue and Price  
 The Inefficiency of Monopoly, Policy Options  
 Price Discrimination: good or bad? ...and for whom?
10. **FACTOR MARKETS** Chapter 18
- A. **The Labor Market**  
 Labor Demand: The Marginal Productivity Theory, MRP, VMP  
 Labor Supply  
 Equilibrium Wage  
 Distribution of Total Product
- B. **The Case of Many Factors**  
 Optimal Purchase Rule
11. **INTERNATIONAL TRADE** Chapter 9  
 Principle of Comparative Advantage Again  
 Gains from Free Trade: Exporting nation, Importing nation  
 Restricting Free Trade: the case of Tariffs (Read p. 187-194 on your own)

### III. MACROECONOMICS

12. **MEASURING MACROECONOMIC VARIABLES** Chapter 23  
 Gross Domestic Product (GDP)  
 What is it? How is it Measured? What are its Components?  
 Nominal v. Real GDP  
 GDP Deflator  
 GDP and Welfare

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| <p>12. ....Continued<br/> The Consumer Price Index<br/> What is it? How is it Computed?</p> <p>Unemployment<br/> Measuring Unemployment<br/> Many types of Unemployment</p> | <p>Chapter 24 (p. 529-537 only)</p> <p>Chapter 28 (p. 613-626 only)</p> |
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## MACROECONOMY IN THE LONG-RUN

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| <p>13. PRODUCTION AND ECONOMIC GROWTH<br/> Historical Perspective on Economic Growth<br/> Importance and Determinants of Productivity<br/> Role of Public Policy in Enhancing Economic Growth</p>  | <p>Chapter 25</p>                  |
| <p>14. THE FINANCIAL SYSTEM<br/> Broad Overview of Financial Markets<br/> Saving and Investment<br/> The Bond (or Loanable Funds) Market: Reconciling saving and investment decisions</p>  | <p>Chapter 26</p>                  |
| <p>15. THE MONETARY SYSTEM<br/> Defining 'Money'<br/> The Federal Reserve System and Creation of Money<br/> The Money Multiplier<br/> Policy Tools of the Federal Reserve</p>  | <p>Chapter 29</p>                  |
| <p>16. MONETARY GROWTH AND INFLATION<br/> The Classical Theory<br/> Money Supply and Money Demand<br/> Velocity and the Quantity Equation<br/> Effects of Changes in Money Supply: Classical Dichotomy<br/> Some Costs of Inflation<br/> Shoe-leather and Menu Costs, Misallocation of Resources</p> | <p>Chapter 30 (not p. 678-684)</p> |

## MACROECONOMY IN THE SHORT-RUN

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| <p>17. ECONOMIC FLUCTUATIONS: AD AND AS<br/> Aggregate Demand Curve<br/> Why it slopes downward and what causes it to shift<br/> Aggregate Supply Curve<br/> Vertical in the long-run but upward sloping in the short-run<br/> Explaining Economic Fluctuations<br/> Variability in aggregate demand and aggregate supply</p> | <p>Chapter 33</p> |
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## 18. MONETARY POLICY AND FISCAL POLICY

Chapter 34

### Monetary Policy

Liquidity Preference Theory

How the Fed influences the Economy

### Fiscal Policy

The Multiplier Effect

The Crowding-Out Effect

## 19. OPEN ECONOMY MACROECONOMICS

Chapter 31

### Basic Concepts

The international flow of Products and Capital

Saving and Investment again

The Foreign Exchange Rate

## IV. OVERVIEW