

Economics 1: Principles of Economics

Department of Economics
University of California at Berkeley
Fall 2010

Course website: http://delong.typepad.com/econ_1_fall_2010/

Lecturer: J. Bradford DeLong delong@econ.berkeley.edu Evans 601
Head GSI: Mike Urbancic urbancic@berkeley.edu Evans 508-2

Lecturer's Office Hours: Brad DeLong, Evans 601. Drop-in hours W2-4 and (most) F12-1 in Wheeler Auditorium.

Head GSI's Office Hours: Mike Urbancic Evans 508-2. Until September 7th: M2- 4:30 T11:30-2 W9-11:30 Th 9-11:30, 2-4:30 F11:30-2. After September 7th M4-5, T4-5

Responsibility:

You are responsible for knowing what is in this syllabus: assignments, due dates, policies, et cetera.

Principles of Economics Course:

This is an introductory course in the principles of economics. The course covers both microeconomics and macroeconomics. Topics include: economic modeling; allocation of resources; firm decision-making; imperfect competition; economic analysis of unemployment, inflation, and economic growth; the role of government in the domestic economy; international trade and finance; and U.S. economic policies of the last quarter century. Primary emphasis is placed upon acquiring skills with which to analyze current economic issues.

USLI:

As part of Berkeley's Undergraduate Student Learning Initiative (USLI), the Economics Department has developed learning goals for the Economics major. See http://emlab.berkeley.edu/econ/ugrad/ugrad_goals.shtml. The specific learning goals which this course aims to achieve are: CT1, understand everyday economic problems; CT2, use economic theory to understand and evaluate policy proposals; PS1, solve

problems with clear solutions; CS1, communicate effectively about economic issues; LL2, primary data sources; LL3, understand the economic news.

Enrollment Policies:

The department relies completely on TeleBears for enrollment purposes. To add the course, first check the online schedule of classes (<http://schedule.berkeley.edu>) to see which sections have space and then access TeleBEARS. Your chances are better if you choose a section that is underenrolled. If you are already on the waiting list but want to change your section choice, access TeleBEARS and use the change section option. Do not drop yourself from the course wait list, or you'll lose your place "in line." Simply change sections. See Head GSI Mike Urbancic (urbancic@berkeley.edu), GSI Coordinator Juan Carlos Suarez Serrato (HeadGSI@econ.berkeley.edu) or Econ Undergrad Advisor Ginnie Sadil (gsadil@econ.berkeley.edu) for assistance.

Textbooks and Other Materials:

Strongly Recommended: Karl Case, Ray Fair, and Sharon Oster, *Principles of Economics*. The textbook is only recommended because Bob Reich, Laura Tyson, and I are writing our own, and will be distributing electronic versions of draft chapters. But the recommendation is strong. Note that you do not need the (\$155.20) 9th edition, the (\$1.87) 8th edition or even the 7th edition will do as well.

Recommended: Purchase of an iClicker—if you want to top off your problem set points, that is: up to half of missed problem set points can be made up by using your iClicker to respond to questions asked during class.

Required: Partha Dasgupta, *Economics: A Very Short Introduction*; Paul Seabright, *The Company of Strangers*; Milton Friedman and Rose Director Friedman, *Free to Choose*; Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*. Required books are available at the student bookstore (and elsewhere).

Communication:

We will use your bSpace email address. Be sure your email address registered with the University is correct, your spam filters are not set too tight, and that your inbox is not full. Emails are archived at <http://bspace.berkeley.edu>.

All announcements will be sent by email. Some announcements contain links to additional readings from current news sources. These readings are to be considered required assigned readings for the course.

Grading:

30% of your grade will be based on the final exam (December 14). 15% will be based on each of the two midterms (October 4 and November 8). 25% will be based on problem sets and short essays (ten in all). 15% will be based on section participation, including two in-section oral presentations and assorted section quizzes.

The typical median grade in this course is a B-. If we on the teaching staff are happy with the course—that is, if you students work hard, learn a lot, and do well on the exams—the median may rise to a B.

Participation in the in-lecture iClicker exercises will boost your problem set grades, with a maximum iClicker score gaining you half of all possible problem set points. Thus it is in your interest to buy the recommended iClicker and participate in the iClicker exercises.

Letter of Introduction

By the start of lecture on September 1, please write a one-page essay—a “letter of introduction” to your GSI. Include your name, the reasons why you are choosing to spend 3% of your scarce college curriculum time taking this course this year, what you hope to learn from this course, what you hope to do in the future as a result of this course, and anything else about yourself that you would like to share with your GSI. Please include or embed a photo of yourself, as this will help your GSI learn your name.

Discussion Section

Section meets two hours per week. You must attend the section to which you are assigned by Telebears. If you do not attend your assigned discussion sections in the opening week of class, you will be removed from the class by the economics department administration.

Discussion sections will be run on the small group format. Twice during the term, you will be required to give very short—think three minute—oral presentation on outside-reading articles that will be assigned. The articles covered in the presentations will be tested on the midterms.

Special Accommodations:

If you require special accommodations for exams or lecture due to learning or other disability, please speak with Head GSI Mike Urbancic before Labor Day. You will ultimately need to obtain the evaluation form from Disabled Students' Program (<http://dsp.berkeley.edu>, 230 César Chávez Center).

Schedule and Assignments

0. Preliminaries

Summer assignment:

- Read Dasgupta, *Economics: A Very Short Introduction*
- Read pp. 1-31 of Seabright, *The Company of Strangers*
- Read pp. ix-69 of Milton Friedman and Rose Director Friedman, *Free to Choose*
- Read introduction and part I: chapters 1-5 of Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*

Section 1 assignment: CFO (Case, Fair, Oster), chapter 21, or equivalent readings on the circular flow of economic activity and the national income and product accounts.

1. Macroeconomics

1.1 Depression Economics

M Aug 30: The Great Recession of 2008-2010. CFO, chapter 22, pp. 435-442, or equivalent...

W Sep 1: Depression Economics. CFO, chapter 23

- Essay 1: letter of introduction: one page (250 words) on why you are choosing to take this course due at the start of lecture on Sep 1.

W Sep 8: Financial Crises and the Housing Bubble. CFO, chapters 11, 24

Section 4 assignment: read part II, chapter 2 of Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*. Read pp. 106-133 of Seabright, *The Company of Strangers*

1.2 Inflation Economics

M Sep 13: Inflation Economics. CFO, chapter 22, pp. 442-446, chapter 26

W Sep 15: The Federal Reserve and Macroeconomic Management. CFO, chapters 25, 28

- Problem set 1: depression economics due at start of lecture on September 15.

1.3 Budget Economics

M Sep 20: The Government's Resources and Promises: The National Debt and Budget Balance

W Sep 22: Fiscal Crisis, Capital Flight, Hyperinflation. CFO, chapter 19, 35

- Problem set 2: inflation economics due at start of lecture on September 22.

1.4 Growth Economics

M Sep 27: Total Output and Factors of Production: Technology, Organization, Labor, Capital, Education, Resources. CFO, chapter 22, pp. 446-8; chapter 32

Section 9 assignment: read part II, chapters 1,3-5 of Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*

W Sep 29: Sources of and Limits to Growth. CFO, chapter 36

- Problem set 3: long-run budget/growth due at start of lecture on September 29

M Oct 4: MIDTERM EXAM

Section 11 assignment: read pp. 33-105, 134-150 of Seabright, *The Company of Strangers*

W Oct 6: Economic Knowledge as the Ultimate Free Lunch

Section 12 assignment: read pp. 151-264 of Seabright, *The Company of Strangers*

2. Microeconomics

2.1 Choice and Organization

M Oct 11: Economic Behavior: Choice, Scarcity, and Exchange. CFO, chapter 2

W Oct 13: Markets and Other Allocation Procedures

- Essay 2: two-pages on human social large-scale cooperation due at start of lecture on October 13

Section 14 assignment: Read I:6-9 of Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*

M Oct 18: Working with Supply and Demand. CFO, chapters 3, 4, 5

W Oct 20: Production and Equilibrium in the Short Run and the Long Run. CFO, chapters 7, 8, 9

- Problem set 4: supply and demand

M Oct 25: General Equilibrium and the "Efficiency" of "Perfect" Competition. CFO, chapter 6, 12

2.2 Market Power

W Oct 27: Monopoly. CFO, chapter 13

- Problem set 5: short-run and long-run due in lecture on October 27

M Nov 1: Oligopoly. CFO, chapter 14

W Nov 3: Monopolistic Competition. CFO, chapter 15

- Problem set 6: monopoly pricing due at lecture on November 3.

M Nov 8: MIDTERM 2 EXAM

2.3 Market Failure

W Nov 10: Externalities. CFO, chapter 16

M Nov 15: Uncertainty and Asymmetric Information. CFO, chapter 17

W Nov 17: Increasing Return and Information Goods

M Nov 22: Poverty and Income Distribution. CFO, chapter 18

- Problem set 7: externalities due at lecture on November 22.

Section 25 assignment: read part I, chapter 10 of Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*

W Nov 24: NO CLASS

3. Political Economy

M Nov 29: The "Mixed Economy"

Section 26 assignment: read part V of Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*. Read pp. 265-315 of Seabright, *The Company of Strangers*

W Dec 1: The Economic Theory of Politics. CFO, chapter 16, pp. 337-42

- Problem set 8: social welfare due at lecture on December 1

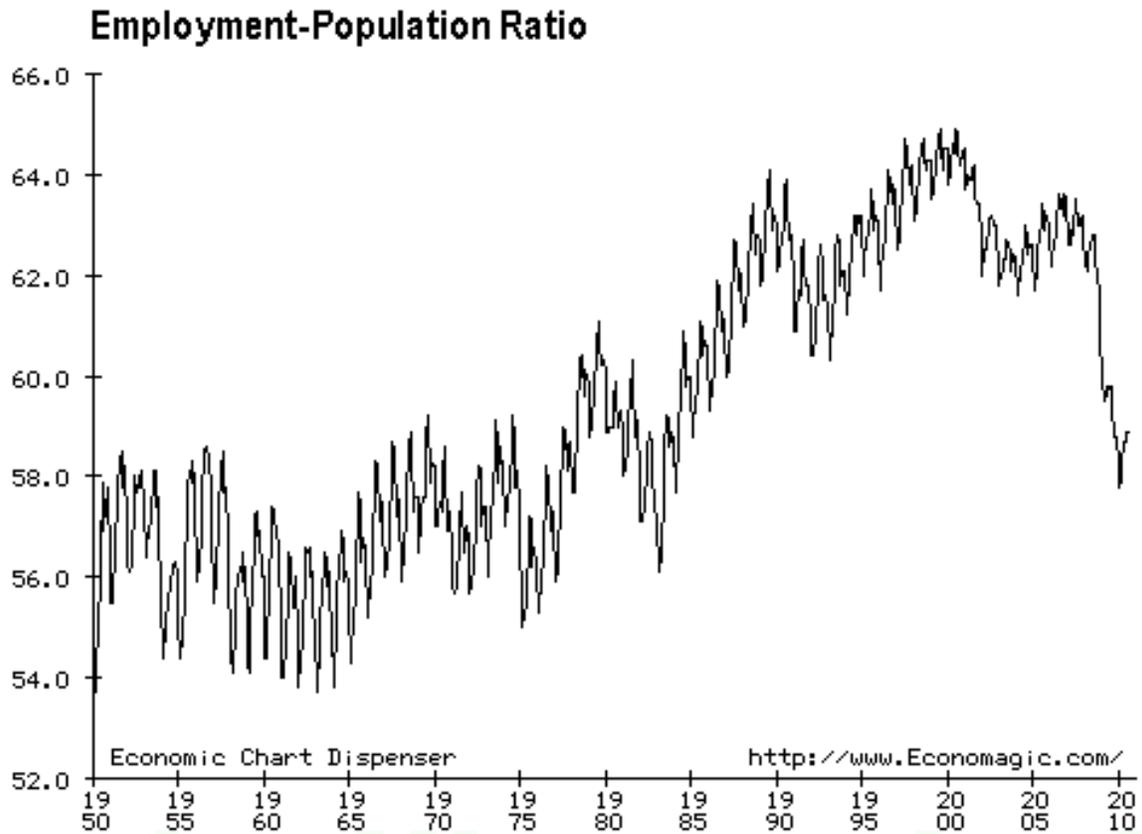
Section 27 assignment: read pp. 70-310 of Milton Friedman and Rose Director Friedman, *Free to Choose*

4. Conclusion

M Dec 6: Economic Policies and Problems Today

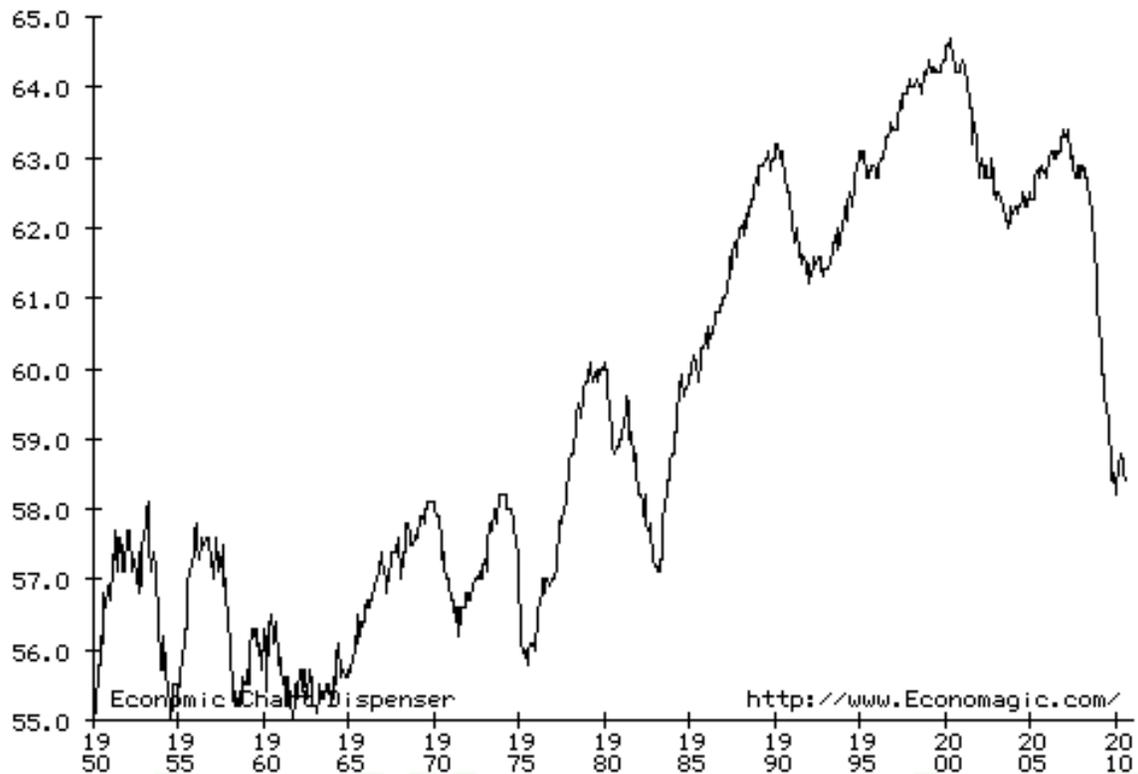
F Dec 10: FINAL REVIEW

T Dec 14: FINAL EXAM 11:30-2:30



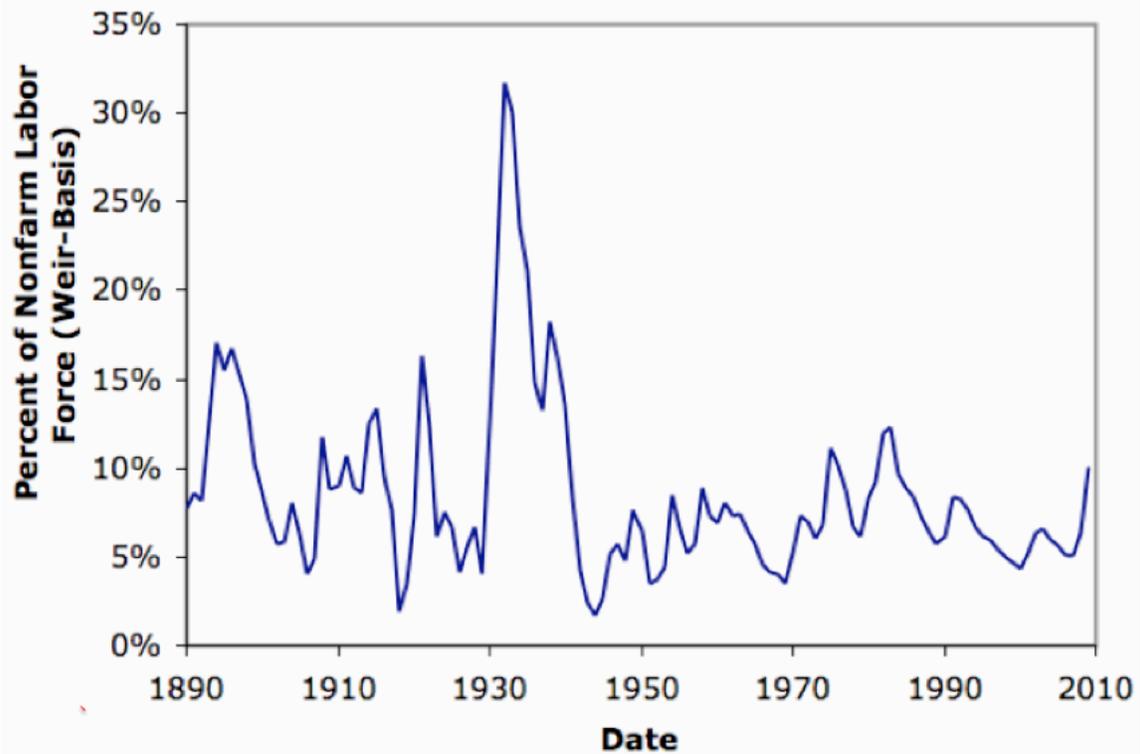
- The share of American adults who have jobs.
- Three things to note about this graph:
 - The regular (albeit a lot smaller than it used to be) seasonal cycle
 - Feminism—the rise from 1975 to 2000—and the business cycle
- Remove the seasonal...

Employment-Population Ratio



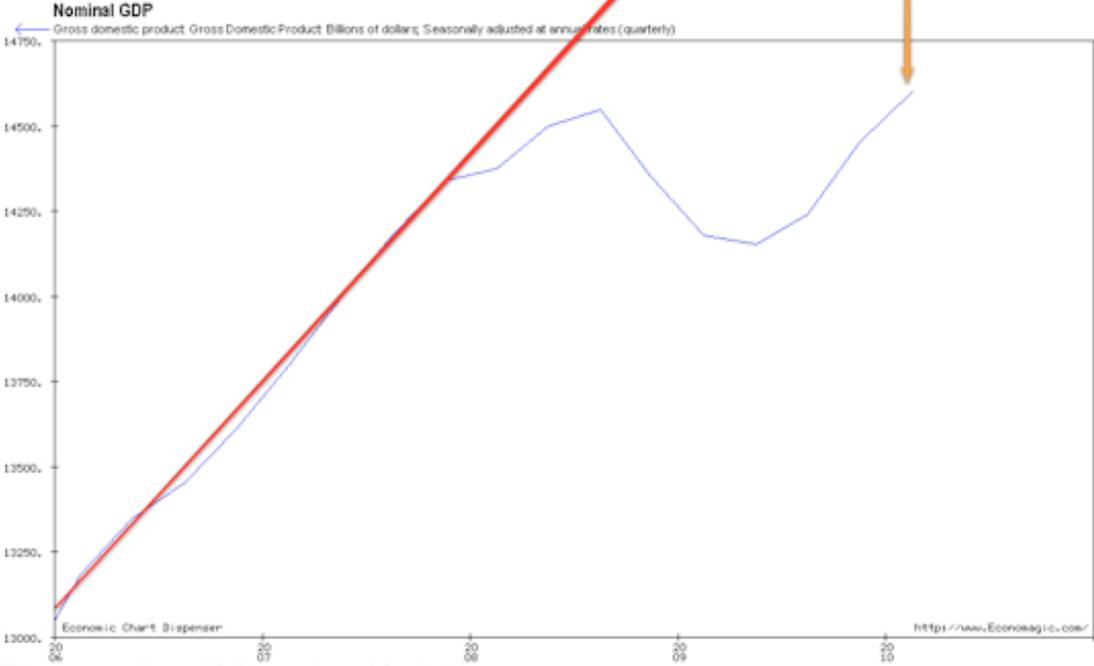
- The share of American adults who have jobs.
- “Seasonally adjusted” data
- Two things to note:
 - Feminism—the rise from 1975 to 2000
 - And the business cycle
- The business cycle
 - Irregularly—once a decade or so—the employment-to-population ratio collapses
 - And then it climbs—more slowly than it collapsed back up toward its “normal” level for that decade—58% in the 1950s, 1960s, and early 1970s, 60% in the early 1980s, 63%-65% in the late 1980s, 1990s, and 2000s—before collapsing again
- This business cycle the biggest since World War II

Nonfarm Unemployment Rate



- This business cycle the biggest since World War II
- This business cycle small potatoes compared to what came before
- Focus on “nonfarm” unemployment
- Great Depression
- But also:
 - Post-WWI deflation
 - Panic of 1907
 - Silver panics of 1893-6

The Pace of Total Spending: Pre-Depression Trend and Outcome



- Proximate cause of the recent “great recession”
- A collapse in the flow of spending through the economy

Test Your Knowledge

1. What are the three major features that jump out at you when you look at the graph of the post-WWII U.S. employment-to-population ratio?
2. What are the most important differences between this course and your standard American college introductory economics course?
3. Why are we starting this course with macroeconomics rather than microeconomics? In fact, what is “macroeconomics” anyway?
4. What are the four principal parts of macroeconomics?
5. Why are the two years 2008-2009 called the “great recession”?