

Revised Syllabus for 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 W2-3:30 (Evans) and 3:30-4:30 (IAS).

Head GSI's Office Hours: Mike Urbancic Evans 508-2. 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.

Regrades:

If you notice an arithmetic mistake in totaling the number of points on an exam, simply point this out to your GSI as soon as possible, and the correction will be made.

For any other reconsideration of a grade on either of the midterms, you must submit a formal re-grade request, in writing, given to your GSI no later than seven days after the midterm is returned. Note that the entire midterm will be subject to re-grading—so you may gain or lose points overall if you request a re-grade.

There will never be a re-grade for any problem set or quiz, nor will there ever be a re-grade for the final exam.

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...

Section 2: NIPA, Friedman, Libertarianism (and other topics)

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.

Section 3: Seabright; sects of macroeconomists (and other topics)

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*; housing bubble and its consequences (and other topics)

M Sep 13: Makeup depression economics lecture

1.2 Inflation Economics

Section 5: Inflation (and other topics)

W Sep 15: Inflation Economics. CFO, chapter 22 “Inflation”; chapter 25 “An Overview of Money” and “How Banks Create Money”; chapter 29 “The Short Run Relationship Between the Unemployment Rate and Inflation” and “The Long Run Aggregate Supply Curve, Potential Output, and the Natural Rate of Unemployment”; chapter 33 “Monetarism”

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

Section 6: The 1970s inflation (and other topics)

M Sep 20: The Federal Reserve and Macroeconomic Management. CFO, chapter 25 “The Federal Reserve System”; chapter 26 “Interest Rates and Bond Prices”, “The Equilibrium Interest Rate”, and “The Federal Reserve and Monetary Policy”; chapter 30 “Time Lags Regarding Monetary and Fiscal Policy”

1.3 Budget Economics

M Sep 20: The Government's Resources and Promises: The National Debt and Budget Balance. CFO, chapter 19 “The Economics of Taxation” and “Tax Incidence: Who Pays?”; chapter 24 “The Federal Budget”; chapter 30 “Fiscal Policy and Deficit Targeting”

Section 7: Reagan and the Volcker disinflation (and other topics)

W Sep 22: Fiscal Crisis, Capital Flight, Hyperinflation. CFO, chapter 35 “The Balance of Payments”, “Equilibrium Output in an Open Economy”, and “The Open Economy with Flexible Exchange Rates”

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

Section 8: The PPACA (and other topics)

1.4 Growth Economics

M Sep 27: Potential Output and the Factors of Production: Technology, Organization, Labor, Capital, Education, Resources. CFO, chapter 22, “Long Run Growth”; chapter 32 “The Growth Process from Agriculture to Industry” and “Growth and Productivity in the United States”

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

W Sep 29: Sources of and Limits to Growth. CFO, chapter 36 “Life in Developing Nations”, “Economic Development”, and “Issues in Economic Development”

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

Section 10: midterm preparation (and other topics)

M Oct 4: MIDTERM EXAM

Section 11 assignment: read pp. 33-105, 134-150 of Seabright, *The Company of Strangers*; sociability (and other topics)

W Oct 6: Knowledge as the Ultimate Free Economic Lunch. CFO, chapter 36 “The Transition to a Market Economy”

Section 12 assignment: read pp. 151-264 of Seabright, *The Company of Strangers*; sociability and growth (and other topics)

2. Microeconomics

2.1 Choice and Organization

M Oct 11: Economic Behavior: Choice, Scarcity, and Exchange. CFO, chapter 2 “Scarcity, Choice, and Opportunity Costs”; chapter 6 “Household Behavior and Consumer Choice” and “The Basis of Choice”

Section 13: psychology and choice (and other topics)

W Oct 13: Markets and Other Allocation Procedures. CFO, chapter 2 “Economic Systems”; chapter 3, “Firms and Households”, “Demand in Product/Output Markets”, “Supply in Product/Output Markets”, and “Market Equilibrium”; chapter 4 “The Price System”

- 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* (and other topics)

M Oct 18: Working with Supply and Demand. CFO, chapter 4 “Supply and Demand Analysis” and “Supply, Demand, and Market Efficiency”; chapter 6 “Income and Substitution Effects” and “Household Choice in Input Markets”

Section 15: supply and demand (and other topics)

W Oct 20: Production and Equilibrium in the Short Run and the Long Run. CFO, chapter 5 “Price Elasticity of Demand”, “Calculating Elasticities”, “The Determinants of Demand Elasticities”; chapter 7 “The Behavior of Profit-Maximizing Firms” and “The Production Process”; chapter 8 “Costs in the Short Run” and “Output Decisions”; chapter 9 “Short-Run Conditions and Long-Run Conditions”, “Long-Run Costs”, and “Long-Run Adjustments to Short-Run Conditions”

- Problem set 4: supply and demand

Section 16: short-run and long-run (and other topics)

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

Section 17: alternative allocation and decision mechanisms (and other topics)

2.2 Market Power

W Oct 27: Monopoly. CFO, chapter 12 "The Sources of Market Failure"; chapter 13 "Imperfect Competition and Market Power", "Price and Output Decisions in Pure Monopoly Markets", "The Social Costs of Monopoly", "Price Discrimination", and "Remedies for Monopoly"

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

Section 18: price and quantity signals (and other topics)

M Nov 1: Oligopoly. CFO, chapter 12 "The Sources of Market Failure"; chapter 14 "Market Structure in an Oligopoly", "Oligopoly Models", "Game Theory", "Oligopoly and Economic Performance", and "The Role of Government"

Section 19: market power (and other topics)

W Nov 3: Monopolistic Competition. chapter 12 "The Sources of Market Failure"; CFO, chapter 15 "Industry Characteristics" "Product Differentiation and Advertising", "Price and Output Determination in Monopolistic Competition", and "Economic Efficiency and Resource Allocation"

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

Section 20: pre-midterm review (and other topics)

M Nov 8: MIDTERM 2 EXAM

2.3 Market Failure

Section 21: make-up section (and other topics)

W Nov 10: Externalities. CFO, chapter 12 "The Sources of Market Failure"; chapter 16 "Externalities and Environmental Economics" and "Public Goods"

Section 22: law and economics (and other topics)

M Nov 15: Uncertainty and Asymmetric Information. CFO, chapter 12 "The Sources of Market Failure"; chapter 17 "Decision Making Under Uncertainty", "Asymmetric Information", and "Incentives"

Section 23: economics of health care (and other topics)

W Nov 17: Increasing Return and Information Goods. CFO chapter 9, “Increasing Returns to Scale”

Section 24: high tech and Silicon Valley (and other topics)

M Nov 22: Poverty and Income Distribution. CFO, chapter 18 “The Utility Possibilities Frontier”, “The Sources of Household Income”, “The Distribution of Income”, “The Redistribution Debate”, and “Redistribution Programs and Policies”

- 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* (and other topics)

W Nov 24: NO CLASS

3. Political Economy

M Nov 29: The "Mixed Economy". CFO, chapter 16 “Social Choice”, and “Government and the Market”; chapter 18 “Government or the Market?”

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* (and other topics)

W Dec 1: The Economic Theory of Politics.

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

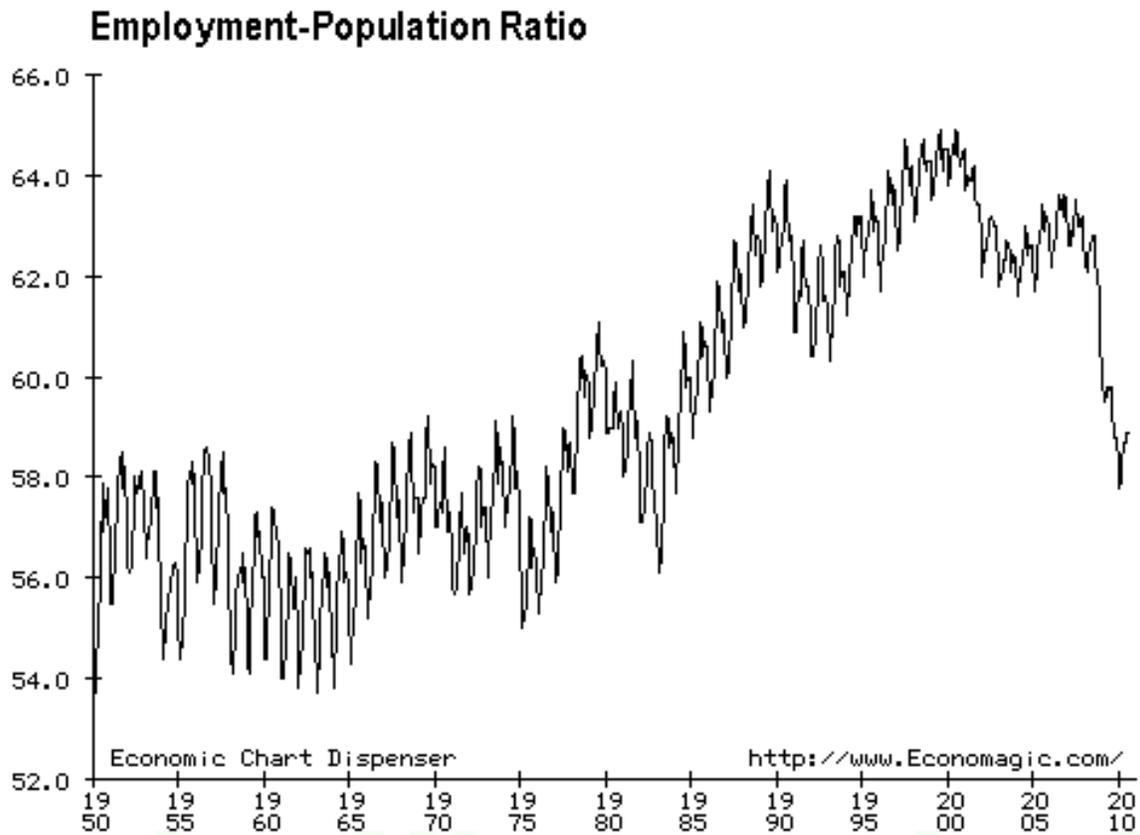
Section 27 assignment: read pp. 70-310 of Milton Friedman and Rose Director Friedman, *Free to Choose* (and other topics)

4. Conclusion

M Dec 6: Economic Policies and Problems Today

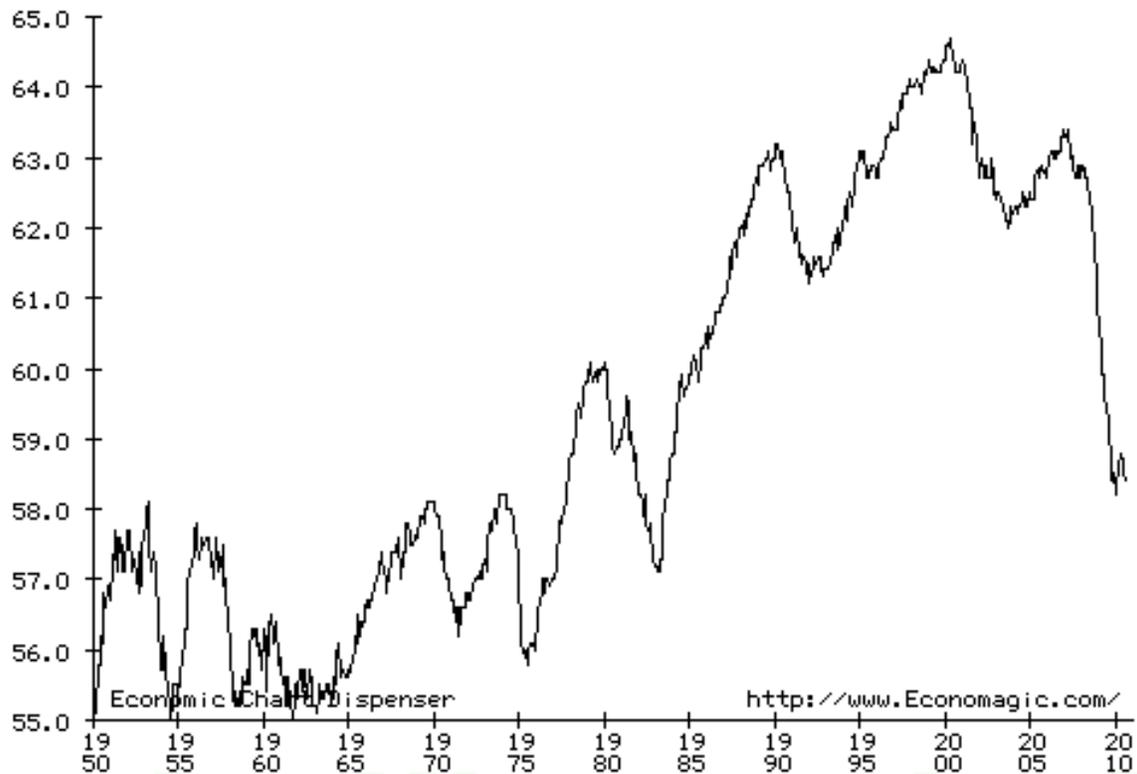
F Dec 10: FINAL REVIEW

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



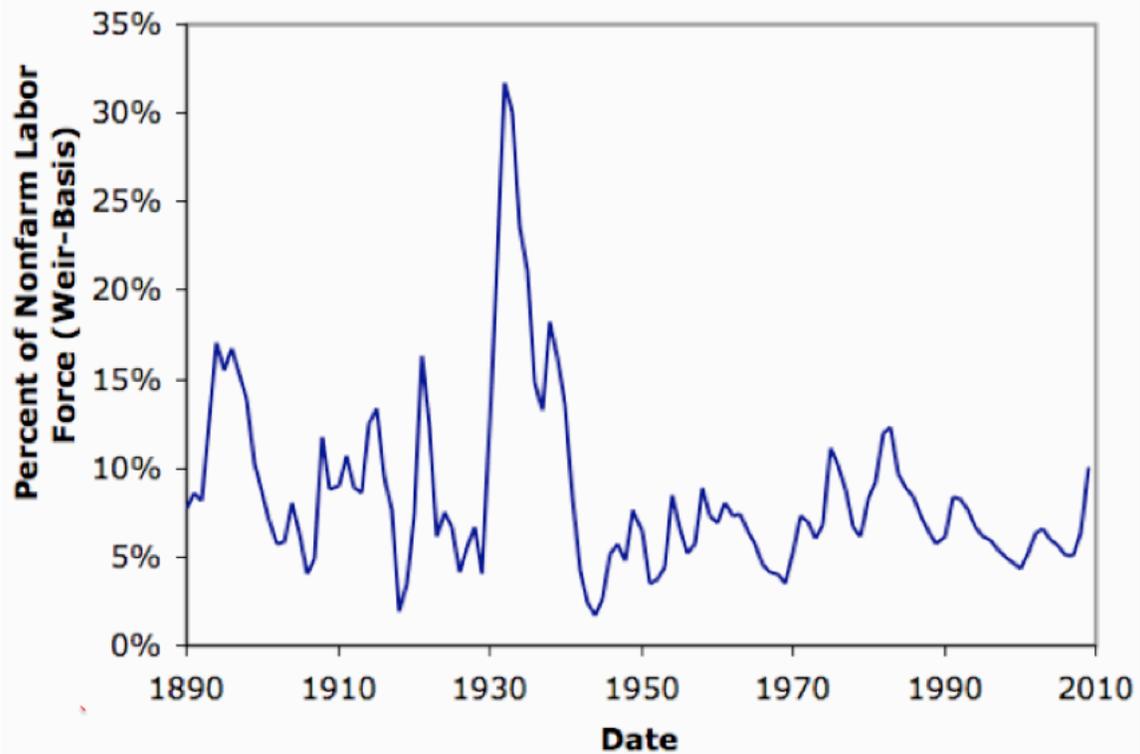
- The share of American adults who have jobs.
- Three things to note about this graph:
 - The regular (albeit a lot smaller than it used to be) seasonal cycle
 - Feminism—the rise from 1975 to 2000—and the business cycle
- Remove the seasonal...

Employment-Population Ratio



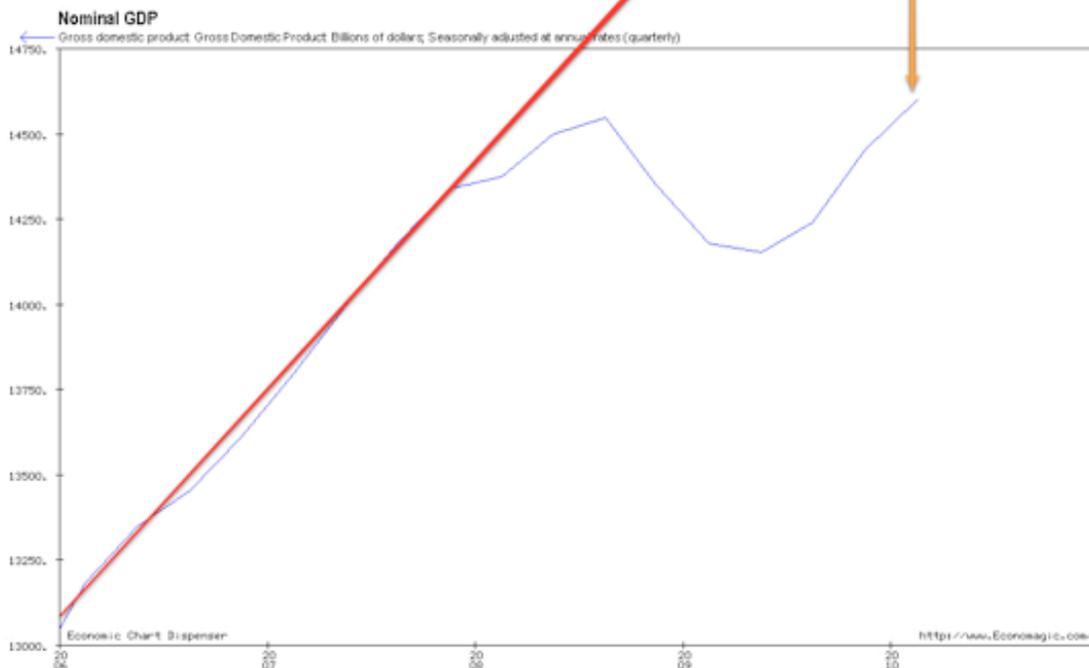
- The share of American adults who have jobs.
- “Seasonally adjusted” data
- Two things to note:
 - Feminism—the rise from 1975 to 2000
 - And the business cycle
- The business cycle
 - Irregularly—once a decade or so—the employment-to-population ratio collapses
 - And then it climbs—more slowly than 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”?