Basic Economics

Course Objective
Economics is the study of decision-making in the face of scarcity. This course considers both Microeconomics – individual decision-making – and Macroeconomics – decision-making on a large scale in the nation and globally. The American economy is analyzed within the context of a market system. At the end of the term, one should have a good understanding of economists' theories of the workings of a market system.

Pre-requisites:
None. This course is not open to anyone who has completed either Economics 101 or Economics 102 (or the equivalent).

Office Hours:
Mondays and Wednesdays 8.00 to 9.20 and 11.00 to 12.20
Tuesdays and Thursdays 8.00 to 9.20 and after 12.30

Texts:
Lee. Chapters for Basic Economics on my Web Site. Basically, one chapter goes with each class meeting. Handouts Provided

Readings:
Reading assignments and study questions for each class period are provided below

Evaluation Procedures:
There will be three examinations given during the semester at dates that will be announced. Answers will be all written. In preparing for these examinations, you should answer all of the Objectives at the beginning of each chapter. Unless otherwise informed, you are responsible for all of these questions. Each examination is worth 100 points. The lowest of the scores will be dropped. However, there will be no make-up examinations given.

There will be (6 or 7) weekly quizzes given on the dates announced in class. These will be worth 10 points each and will involve multiple choice questions. The lowest quiz grade will be dropped. A quiz may be made up for a maximum grade of 7 prior to the next examination.

There will be a final examination which will cover the entire course. 100 points will be for multiple choice questions and 100 points will be for a series of written questions. You will see the written questions in advance of the examination.

Attendance and homework will be part of the grade. Two points will be awarded for attendance on days on which there is no quiz or examination. The points will be based on participation in in-class activities, as shown by the turning in of in class activities. Homework will be passed out in certain classes to be turned in at the next class meeting. Each assignment will be worth between 5 points and 10 points. Only two homework assignments will be accepted late without penalty. The 3rd through 5th late assignment will receive a one-point penalty. Further late assignments will not be accepted. These penalties will be waived if there are extenuating circumstances.

Grading is done on an individual basis; there is no curve used. Grading is set so that 90%+ is an A, 80-89% is a B, 60-79% is a C, and 50-59% is a D.

You are expected to attend all class meetings and are responsible for all material presented and for any announcements made. Anyone wishing to drop the course must initiate the procedure, as drops will NOT be initiated by the instructor.
Economics 100 Syllabus for Part I of the Course

Class #1: The Nature of Economics (January 19)

Introduction to the Course

1. What is Microeconomics? What is Macroeconomics?
2. What assumptions are made about human wants?
3. What is meant by “factors of production”?
4. Define “capital” and give an example.
5. Define “entrepreneurship”.
1. What is meant by "capitalism"? by "socialism"?
2. What is meant by "scarcity"?

(Reading: Lee, Chapter 1 on Web Site)

Class #2: Scarcity and Choice (January 24)

1. What are the three questions that every society must answer?
2. What is “opportunity cost”? Give some examples. For example, what is the opportunity cost to you of attending this college?
3. What is “increasing opportunity cost”? Why does it occur?
4. What are “capital intensive methods of production”? What are “labor intensive methods of production”?
5. What is meant by an "economy"?
6. What is a "market economy"? What is a "command economy"?
7. What is meant by "rational behavior"? Explain the procedure by which rational decisions are made. Give some examples. What does "marginal benefit" mean? What does "marginal opportunity cost" mean?

(Reading: Lee, Chapter 2 on Web Page)

Class #3: Demand (January 26)

1. What is meant by "demand"?
2. What is the "law of demand"?
3. What is a demand curve? Draw the demand curve.
4. What is the "price elasticity of demand"?
5. What is meant by "inelastic demand"? by "elastic demand"? by "unit elastic demand"? by "perfectly inelastic demand"? by "perfectly elastic demand"?
6. Define "total revenue". What is the relation between the price elasticity of demand and the revenue received (if there is an increase in the price of the product)?
7. What are the three factors that determine whether the demand for a product is relatively elastic or relatively inelastic?
8. Apply the analysis of elasticity to the cases in the class: gasoline, electricity, tobacco, first-class mail, college tuition, and the cases in the textbook.

(Reading: Lee, Chapter 3 on Web Site)
Class #4: Demand and Supply (January 31)

Quiz #1: Covers the Material From the Beginning of the Course

1. Name six reasons the demand curve might shift to the right and six reasons that it might shift to the left. Define "substitute" and "complement".
2. Define "supply". What is the "law of supply"?
3. What is the "supply curve"? Draw it.
4. What will cause a movement along the supply curve?
5. What will cause a shift in the supply curve?

(Reading: Lee Chapter 4 on the Web Site)

Class #5: Demand and Supply (February 2)

1. What is meant by "equilibrium"? How are the equilibrium price and quantity determined?
2. If the price is above (or below) equilibrium, what will result?
3. Explain what will happen to the price and the quantity in each of the following cases (as well as why this will happen):
   a. there is an increase in demand or a decrease in demand
   b. there is an increase in supply or a decrease in supply
4. Explain what will happen to the price and the quantity in each of the following cases, as well as why it will happen:
   a. both demand and supply rise  c. demand rises and supply falls
   b. both demand and supply fall  d. demand falls and supply rises
   (On an examination, you will be given a case. You will need to interpret the case as a change in demand, a change in supply, or both. You will then need to show the appropriate changes on the graph and analyze the results.)
5. Use demand-supply analysis plus the concept of elasticity to explain why farmers have faced consistently falling prices and profits.

(Reading: Lee, Chapter 5 on the Web Site)

Class #6: Demand and Supply Concluded (February 7)

1. What is a price floor? Use the example of agricultural price supports to analyze the results of price floors?
2. What is a price ceiling? Use the cases of rent controls, gasoline, health care, organ donations etc. to analyze the results of a price ceiling?
3. Describe the process of the "invisible hand"? In this process, how does an economy respond to a change in consumers' tastes? How does it respond to a change in the relative scarcity of the factors of production?
4. In the process of the "invisible hand", what are the functions of the price? Why do people acting in their own self-interests also act in the interest of society as a whole?

(Reading: Lee, Chapter 6 on the Web Site)
Class #7: Production (February 9)

1. Define "cost". What is an "explicit cost"? What is an "implicit cost"?
2. What is a "fixed cost"? What is a "variable cost"?
3. What is the "short-run"? What is the "long-run"?
4. Define "economic profit"; "economic loss". What is the difference between "accounting profit" and "economic profit"?
5. What is meant by the "production function"?
6. What is "marginal (physical) product"?
7. What are "increasing marginal returns"? Why do they occur?
8. What is the "law of diminishing (marginal) returns"? Why is it true?
9. What are "negative marginal returns"?
10. What is "marginal cost"? What is the relation between the marginal physical product and the marginal cost? Why?
11. Explain why marginal cost rises as more of a good or service is produced?

(Reading: Lee, Chapter 7 on the Web Site)

Class #8: Production (February 14)

Quiz #2: Cover the Material Since the Previous Quiz

1. What is meant by the "long-run"?
2. What is meant by "economies of scale"? Why do they exist? Provide examples.
3. What is meant by "diseconomies of scale"? Why do they exist?
4. What is meant by "constant returns to scale"?
5. What is meant by “dynamic increasing returns to scale”? Give some examples.
6. What is meant by “market structure”?
7. What are the characteristics of perfect competition?
8. What are the characteristics of a pure monopoly?
9. Name some of the barriers to entry that allow a pure monopoly to exist?
10. What are the characteristics of monopolistic competition?
11. What are the characteristics of oligopoly?
12. What is a cartel?

(Reading, Lee, Chapter 8 on the Web Site)

February 21 Presidents Day Holiday

Class #9: Examination #1 (February 23)

Covers all material from the beginning of the course (Chapters 1 to 8). The exam is all written. Paper will be provided; bring only pen or pencil.

Class 10: Perfect Competition (February 28)

Review Examination #1

1. What is perfect competition?
2. Define "marginal revenue". What is “total revenue”?
3. In perfect competition, what is the relation between the price and the marginal revenue?
4. Using the procedures for rational decision-making, explain why a company in perfect competition will produce up to (and including) the quantity for which the marginal revenue equals the marginal cost.
5. What should a company do if the marginal revenue is greater than the marginal cost? Why? What should a company do if the marginal revenue is less than the marginal cost? Why?
6. Explain the shutdown rule. That is, if a company is making economic losses, in the short-run, when should it continue to produce and when should it temporarily shut-down? Explain why grocery stores and restaurants are open late at night with few customers.

(Reading: Lee, Class 10 on the Web Site)

**Class 11: Perfect Competition/Monopoly (March 2)**

1. Explain how purely competitive companies adjust in the long-run when they are making economic profits and economic losses.
2. Name and explain the virtues of competition.
3. What is monopoly?
4. Define "marginal revenue". For a monopolist, explain why the price is greater than the marginal revenue.
5. Using numbers, explain how a monopoly company will choose the quantity to produce and the price to charge.
6. What is wrong with the statement “a monopoly company can charge whatever price that it wishes”?
7. Name some barriers to entry.

(Reading: Lee, Class 11 on the Web Site)

**Class 12: Cases on Monopoly (March 7)**

1. Explain the case that pure monopoly is bad for society as a whole.
2. Explain what is meant by a “natural monopoly” and why it would exist. Give some examples.
3. Explain how SDG&E was regulated.
4. Why was SDG&E deregulated?
5. Explain why the deregulation of SDG&E (and others) has led to a major crisis for California.
6. What is meant by price discrimination? Why is it practiced?
7. What conditions are necessary to be able to practice price discrimination?
8. With price discrimination, which segment of the market will be charged the higher price? Give some examples.

Reading: Lee, Class 12 on the Web Site

**Classes 13 and 14: The Labor Market (March 9 and 14)**

**Quiz #3: Covers the Material Since Examination #2**

1. What is a "labor market"?
2. What are the characteristics of a perfectly competitive labor market?
3. What is the "marginal revenue product"?
4. How is the marginal revenue product calculated?
5. Explain why the marginal revenue product rises and then falls as more workers are hired?
6. Explain how a profit-maximizing employer would choose the number of workers to hire.
7. Why is the marginal revenue product curve also the demand curve for labor?
8. What will cause the demand for labor to shift?
9. What is the "wage elasticity of demand" for labor? What are the factors that will determine if the demand for labor is relatively elastic or inelastic? Name four and explain each.
10. Use the answer to question 9 to analyze the effects of a minimum wage law, a comparable worth law, or a Living Wage law.
12. What are the factors that will affect the marginal revenue product of a worker? Use this answer to explain why different people earn different wages in a market.
13. What is meant by “human capital”? by "general training"? By "specific training"? What is "statistical discrimination"?
14. Summarize this section by giving some hypotheses as to why men earn more than women and why whites earn more than minorities.

Reading: Lee Classes 13 and 14 on the Web Site

Classes 15 and 16: Government and Markets (March 16 and 28)

Quiz #4: Covers the Material on Labor Markets from the Last Two Classes (March 16)

1. What is meant by laissez faire?
2. What functions of government are acceptable in a market system with laissez faire?
3. What is meant by “market failure”? What are the sources of market failure?
4. Describe the basic anti-trust laws of the United States.
5. What is the Herfindahl Index?
6. Explain the government’s case against Microsoft and the defense used by Microsoft.
7. What is a Merger? Define “horizontal merger”; “vertical merger”; and “conglomerate merger” and give examples of each.
8. What is the government’s policies concerning mergers? Give some examples.
9. What is a public good? Give examples.
10. What is a “negative externality”? Explain pollution as an example of a market failure.
12. What is the difference between a private cost and a social cost?
13. How can the market failure of pollution be overcome?
14. What is a positive externality? How does the government act to correct for this problem? What are the arguments for and against building a new Padres stadium?
15. What does the government do to enhance equity? What are transfer payments?

Reading: Lee, Classes 15 and 16 on the Web Page.

March 21 and 23: Spring Holiday

Class #17: The Distribution of Income (March 30)

Quiz #5: Covers All Material on Government Since Quiz #4

1. Describe the personal distribution of income in the United States. How has it changed over time? How does it compare to other countries? Compare it to the distribution of wealth?
2. Why has the United States become more unequal over the past 20 years?
3. Who are the super-rich? How does one get to be “super-rich”? (Handout)
4. What are the arguments as to whether equality is desirable or not?
5. How is poverty measured?
6. What has been the trend of the official poverty rate over the past three decades? Describe the composition of the poor by race, by age, and by family structure.
7. Describe the main government programs to alleviate poverty? How have they changed in recent years?

Reading: Lee Class 17 on the Web Page.

Class 18: Examination #2 (April 4)
Covers All of the Material Since Examination #1 (that is, it covers all of the material on the syllabus). The Procedures are the Same as Those of the First Examination.

Class 19: The American Government (April 6)

Review Examination #2

1. What is the largest purchase and what is the largest transfer in the federal budget?
2. How has the composition of the federal budget changed over time?
3. What is the OMB? What is the CBO? What is the CEA?
4. What is a "balanced budget"? a "budget deficit"? a "budget surplus"?
5. What is the "federal debt"? What is a “U.S. Government Security”?
6. What is the "fiscal year"?
7. What is an “entitlement”?
8. Briefly describe the Social Security System and Medicare. What problems are presently faced by Social Security? Why?
9. What proposals are there to improve the Social Security System? Analyze especially the proposal to allow people to put part of the Social Security tax money into the stock market and the proposal to have the government invest the Social Security tax money in the stock market.

Reading: Lee, Class 19 on the Web Page

Class 20: The Tax System (April 11)

1. What are the main taxes collected at each level of government?
2. How do American taxes as a percent of income compare to other countries?
3. How have American taxes as a percent of income changed over time?
4. Briefly describe how the federal income tax and the Social Security tax are determined.
5. Define: progressive tax; regressive tax; proportion (flat) tax; average tax rate; marginal tax rate
6. For each of the taxes collected, is the tax progressive, regressive, or proportional? Why?
7. Is the tax system as a whole progressive, regressive, or proportional?
8. Briefly describe the main tax changes made by Presidents Reagan, Bush, and Clinton, and Bush.

(Reading: Lee, Class 20 on the Web Page)
Class 21: Macroeconomic Measurement & the Economic Growth (April 13)

1. Define Gross Domestic Product (GDP).
2. What are the four components of Gross Domestic Product?
3. Define Business Investment Spending.
4. What is the difference between Nominal GDP and Real GDP? How is Real GDP calculated?
5. What is Per Capita GDP?
6. Describe the record of economic growth in the United States.
7. What factors are responsible for economic growth?
8. What is “productivity”?
9. Describe the productivity slowdown following 1973. Why was it important?
10. What effects did the productivity slowdown have on American life?
11. What has been happening to productivity recently? Why?

(Reading: Lee, Class 21 on the Web Page)

Class 22: Unemployment (April 18)

1. Briefly describe the business cycle. Define each of the following phases: expansion, peak, recession, trough, recovery.
2. What is the Index of Leading Indicators?
3. Explain how the official unemployment rate is calculated.
4. What problems are there with the official unemployment rate calculation?
5. Name and define the four kinds of unemployment.
6. How is full-employment defined?
7. Why might unemployment present a social problem for the United States?

(Reading: Lee, Class 22 on the Web Page)

Class 23: Inflation (April 20)

Quiz #6 on the Material since Examination #2

1. Define inflation and deflation.
2. Explain how the Consumer Price Index (CPI) is calculated?
3. What is a COLA?
4. Which groups of people “win” from unexpected inflation? Which groups of people “lose”?
5. Define nominal interest rate and real interest rate.
6. What is hyperinflation?
7. If you knew inflation was coming, how would you want to hold your wealth? Why?
8. Explain why inflation may cause Real GDP to grow slower than it otherwise would grow.

(Reading: Lee, Chapter 23 on the Web Page)

Class 24 Fiscal Policy (April 25)

1. Name the four components of aggregate demand and define each.
2. Describe the Keynesian View of the response to a recession.
3. What is a “multiplier”?
4. Describe how an increase in government spending can be used to combat a recession.
5. Describe how a decrease in taxes can be used to combat a recession. Illustrate with the case of the Kennedy tax cut of 1964.
6. Describe how a decrease in government spending or an increase in taxes can be used to combat inflation.
7. What is meant by an automatic stabilizer? Name some of these.
8. What is a budget deficit? What is a budget surplus? When is each appropriate policy?
9. Name some problems of fiscal policy. Especially define crowding out.

Fiscal Policy Simulation In Class, Time Permitting

(Reading: Lee, Class 25 on the Web Page)

Class 25: Money and Banking (April 27)

Quiz #7: Covers the Material Since Quiz #6

1. What are the three functions of money?
2. What are the components of the money supply (M1)? What does each represent?
3. What backs the money supply?
4. What is a commercial bank? A Savings and Loan? A Credit Union?
5. What is a Savings Account? A Money Market Fund? A Time Deposit (CD)?
6. What is a “credit card”?
7. What are a financial institution’s main assets and main liabilities?
8. What is meant by the reserve requirement?
9. Explain how a commercial bank can create money.
10. What is the “monetary base”?
11. What is the “money multiplier”? How is it calculated?

(Reading: Lee, Classes 26 and 27 on the Web Page)

Class 26: Money and Banking (May 2)

1. Describe the structure of the Federal Reserve System (Fed).
2. What is the role of the Board of Governors? The FOMC?
3. What does it mean that the Fed is independent?
4. Explain how the Federal Reserve changes the money supply (what are the three tools it has?)
6. What is “open market operations”?
7. Explain the effects of an expansionary or contractionary monetary policy on the economy.
8. What is the effect of a change in the money supply on interest rates? Why?

(Reading: Lee, Classes 26 and 27 on the Web Page)

Monetary Policy Simulation Done in Class if Time Permits.

Class 27: Examination #3. (May 4)

Covers All of the Material Since Examination #2 (that is, it covers all of the material on Part III of the syllabus). The Procedures are the Same as Those of the First Two Examinations.
Classes 28 and 29: International Economics (May 9 and 11) – covered if time permits

Return Examination #3

Materials for Final Examination are Distributed

1. What is meant by a "foreign exchange market"? by "exchange rate"?
2. What is the relation between the demand for foreign exchange and the supply of dollars? Why?
3. What are the factors that affect the demand for foreign exchange? (Review the factors that affect the demand for any product) Define the terms "export" and "import".
4. What is "portfolio investment"? What is "foreign direct investment"?
5. What are the factors that affect the supply of foreign exchange?
13. What is meant by "appreciation" and "depreciation" of a currency? What are the effects of each on American exports and imports? Why?
14. Show what will result in the foreign exchange market if interest rates rise in the United States more than they rise abroad. Explain the causes of the dollar appreciation from 1980-1985.

If there is time, we will consider the economics of the stock market.

Reading: Lee Class 29 on the Web Page

On May 11, we will have some time to review for the final examination.

Final Examination According to the Schedule Wednesday May 18th 2.00 to 3.50