

ST. JOHN'S UNIVERSITY  
NEW YORK

College of Professional Studies

SYLLABUS

Principles of Economics I  
ECO-1001-12628  
Spring 2018  
W, 10:40 am – 1:30 pm, SJH 207

Instructor: Cameron M. Weber, Ph.D.  
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website: cameroneconomics.com (syllabus and other course materials under the  
“teaching” page)

Office hours: M, Th, 12:30 – 2 pm; SJH B17, and by appointment

## COURSE DESCRIPTION

Introduction to the fundamentals of the economic system. The “macroeconomic” approach to employment, prices and economic stability.

## CREDIT

3 Credits

## OBJECTIVES OF THE COURSE

By the completion of the course, students will:

1. Develop the logic of “economic thinking” through the study of economic principles.
2. Describe scarce economic goods, public and collective goods and externalities.
3. Understand the various ways to approach economic macroeconomic policy-making, and, the unresolved debates around policy approaches.
4. Relate macroeconomic stability policy-making to the business cycle and the measurement of economic variables and aggregates.
5. Apply economic understanding, from a variety of economic schools of thought, to better comprehend current events in the economy in order to reach independent, well-considered judgments on important public policy issues.

## RESOURCES AND READINGS

### **Main text (Suggested, not mandatory)**

N. Gregory Mankiw, *Principles of Macroeconomics*, South-Western (Any edition; the chapters listed below are from the 6<sup>th</sup> edition which is available on reserve for student use at the SJU library).

In addition, students should stay current on topical events in the economy by reading the *Economist* magazine, the *New York Times* (available for free on campus), the *Wall Street Journal*, the *Financial Times* and/or a trade journal specific to the student's area of study. Discussing current events will allow us to more fully understand and apply the course material.

### **Supplemental Reading Material**

Friedrich Hayek (1945). "The Use of Knowledge in Society."

<http://www.econlib.org/library/Essays/hykKnw1.html>

Anne O. Krueger (1974). "The Political Economy of the Rent-Seeking Society."

<http://cameroneconomics.com/kreuger%201974.pdf>

### **Additional References**

Walter Bagehot (1873). *Lombard Street*. (Available on-line through many sources.)

David T. Beito (2000). *From Mutual Aid to the Welfare State*. Chapel Hill: The University of North Carolina Press.

Sriya Iyer (2016). "The New Economics of Religion," *Journal of Economic Literature* 54 (2).

John Maynard Keynes (1936). *The General Theory of Employment, Interest and Money*. London: Palgrave Macmillan.

Karl Marx and Frederick Engels (1848). *The Communist Manifesto*, available

<http://www.marxists.org/archive/marx/works/1848/communist-manifesto/>.

Carl Menger (1892). "On the Origin of Money."

<http://www.monadnock.net/menger/money.html>

Charles P. Oman (1999). "Policy Competition for Foreign Direct Investment."

OECD. <http://www.oecd.org/mena/investment/35275189.pdf>

Edmund Phelps (2015). "What is Wrong with the West's Economies?", *New York Review of Books*, August, available through instructor's website.

Joseph Schumpeter (1934). *The Theory of Economic Development*. (Available on-line through many sources.)

Adam Smith (1759). *The Theory of Moral Sentiments*. (Available on-line through many sources.)

Adam Smith (1776). *The Wealth of Nations*. (Available on-line through many sources.)

Thorstein Veblen ([1899] 2001). *The Theory of the Leisure Class*. New York: Random House Modern Library Edition.

*Atlas Shrugged* (film) (2011), directed by Paul Johansson. Adapted from novel of same name by Ayn Rand (1957).

*Charlie and the Chocolate Factory* (2005) (film), directed by Tim Burton. Adapted from novel of same name by Roald Dahl.

*U.N. Me* (film) (2009), produced and directed by Ami Horowitz and Matthew Groff.

*Sicario* (film) (2015), directed by Denis Villeneuve.

### **Youtube.com videos as supplementary materials**

Charlie Chaplin "Factory Scene",  
<http://www.youtube.com/watch?v=CYbsBcPDVQM>

Milton Friedman "On Greed", [http://www.youtube.com/watch?v=RWsx1X8PV\\_A](http://www.youtube.com/watch?v=RWsx1X8PV_A)

George Selgin "100 Years: Has the Fed Been a Failure?",  
<http://www.youtube.com/watch?v=yLynuQebyUM>

Doug French, "Inflation's Winners and Losers"  
<http://www.youtube.com/watch?v=Gu9o0Eii0gI>

"Fear the Boom and Bust", <http://www.youtube.com/watch?v=d0nERTFo-Sk>

"Fight of the Century", <http://www.youtube.com/watch?v=GTQnarzmTOc>

"Hayek v Keynes Part 3", <https://www.youtube.com/watch?v=ZYwHCWkOBo8>

“Fiscal Cliff”, <http://www.youtube.com/watch?v=eiaYmhQsBHc>

“10 Principles by Standup Economist”,  
<http://www.youtube.com/watch?v=VVp8UGjECt4>

Robert Higgs, “Regime Uncertainty Then and Now”  
<http://www.youtube.com/watch?v=f73izHRGI1A>

“Federal Reserve American Dream Explained”,  
<https://www.youtube.com/watch?v=t1NVPEg1jrQ>

“Fractional Banking and the Federal Reserve System Explained”,  
<https://www.youtube.com/watch?v=8Fm5NSeVPog>

### **Websites as supplemental materials**

<http://www.shadowstats.com/>

[Mygovcost.org](http://Mygovcost.org)

<http://www.economicfreedom.org/>

The *Economist* “Big Mac Index”, <http://www.economist.com/content/big-mac-index>

The *Economist* “Crony Capitalism Index”, <http://www.economist.com/news/international/21599041-countries-where-politically-connected-businessmen-are-most-likely-prosper-planet>

National Bureau for Economic Research, [nber.org](http://nber.org)

### **METHODS OF INSTRUCTION**

- Lectures and related readings
- Discussion of current events
- Exams and review of exams in class
- Group research and presentation
- Homework writing assignments

## STUDENT PERFORMANCE EVALUATION:

Class Attendance and Participation	15%
Homework assignments	15%
Midterm Exam	15%
In-Class Quiz and Extra-Credit	15%
Group Research and Presentations	15%
Final Exam	<u>25%</u>
	100%

The course meets three hours per week for 14 weeks. Class preparation and readings outside of class should require at least two hours of study for each hour of class time.

## ASSESSMENTS

Students are assessed by several questions during the Final Exam which are given to all students taking the various sections of the same course with the College of Professional Studies.

## GRADING PROTOCOL

### **Class attendance and participation: 15%**

For the class participation grade students are encouraged to discuss issues based on the readings for each class period, topics on economics relating to current events and to ask clarification for lecture ideas as presented in class (there are no irrelevant questions). It is preferred that students ask clarifying questions during class, both on course subject matter as presented and course grading procedures, as opposed to after class or at office hours so that other students can benefit from discussions / clarifications on general course content.

All discussions initiated by students will add to a student's grade for class participation. To get an "A" for this portion of the grading protocol a student must participate in class discussion and have consistent class attendance. There may be extra-credit opportunities available, including reporting on outside of class economics lectures, depending on how the semester progresses.

**Exams: 40%**

There are two exams for the class, a midterm and a final. The midterm exam counts for 15% of the class grade, the final exam for 25% and is cumulative. Exam and quiz questions will be drawn from material discussed in class, so students are encouraged to ask questions (again part of class discussion) if they do not understand a concept as it is presented in class. Each exam will be true/false and multiple choice questions. The final exam will be 40 questions, and the midterm will be 25 questions. The final exam will contain 10 assessment questions from CPS as part of the college's accreditation process and 30 questions from the instructor.

**In-Class Quiz and Optional Extra-Credit: 15%**

There is one in-class quiz based on the "law of supply and demand." Students will draw and explain supply and demand curves representing differing economic scenarios as discussed in class and as listed in this syllabus.

**Homework Writing Assignments: 15%**

There are two homework assignments for this class, due January 31 and February 14. Students should familiarize themselves with the Foundation for Economic Education ([fee.org](http://fee.org)) and their posts about current and historic events from an economic perspective (you can also subscribe to the FEE daily email for posts). For each of the two homework essays students should choose one FEE story to write a paragraph or two about. Each essay should be about 250 words (the homework should include a word count) and should address, 1) why did you choose this story to write about? and 2) what did you learn and how does this apply to economics? If the essay is on-time, one or two paragraphs about 250 words in length total, and you address 1) and 2) then you will receive full credit for each assignment.

**Group Research and Presentations: 15%**

Student groups will present their group's consensus opinion on two of the propositions in Mankiw's list of "Economists Agree" available on the instructor's website and contained in the textbook on reserve at the library. Groups can use the chalk/marker board, PowerPoint and/or youtube found or self-created content to make their case. First the group should describe the economic proposition in which economists agree, using both material discussed in class and other sources, then should explain why or why not the group agrees with the majority of economists. It is acceptable for groups not to come to a group consensus as long as this is explained

in the presentation as to what economic concepts group members disagree over. Groups should reference at least two sources for each proposition in their research and presentation, one of these sources can be class discussion based on the topic.

The instructor will make available throughout the semester a sign-up sheet for students to sign-up in groups of between 4 and 6 people for this exercise. Students who do not sign-up for a group on or prior to the due date will be assigned a group and/or propositions. There is no grade penalty for not signing-up with a class group in advance of the deadline.

Groups have 10 minutes to present their two “economists agree” propositions, with a group-led 5-minute question-and-answer session after each presentation. One-half of the group grades will be from student peer-reviews and one-half from the instructor. The instructor will distribute peer-review grading sheets prior to the presentations. Turning-in completed peer-review sheets is also part of the class participation grade for this class.

### **Grading policy:**

“A”: 91-100% of possible points for the semester, “A-“: 90 points, “B+”: 89 points, “B”: 81-88 points, “B-“: 80 points, “C+“: 79 points, “C“: 71-78 points, “C-“: 70 points, “D” 60-69 points. Everything below 60 points is an “F”.

### **Class Rules:**

There will be no phone or txt use during class; computers (and tablets etc.) are acceptable if they are used to keep notes on class discussion and/or for research to participate in class discussion. There will be no prolonged “side conversations” during class as this distracts from the learning of others. Anyone who persists in disrupting the class should leave the classroom.

There are no make-up exams or homework assignments. Missed deadlines due to documented medical or other emergencies mean that we re-weight the grading schedule to account for missed work. *Students must submit documentation for missed deadlines to the instructor in hardcopy as soon as possible after a class deadline, failure to do so will mean that the student will lose the points for the missing grade.*

Any student requiring special accommodations should inform the instructor as soon as possible at the beginning of the semester. Video or audio recording the class is not acceptable, however photos of discussed material as written on the board is possible if students ask in advance prior to photographing the material.

## TOPICS AND REFERENCES

**Introduction:** The Keynesian equation for measurement of the economy [ $Y=C+I+G+(X-M)$ ], the burden of government measurement [ $G/Y$ ], and introduction to the “Keynesian” and “Hayekian” ideal-types in order to understand the debates over economic policy. Also, relatedly economic growth in historical perspective, absolute poverty versus relative poverty, creative destruction versus macro-economic stability, and Sowell’s Rule on the difference between politics and economics. “Fear the Boom and Bust” youtube

*The following topics will be discussed in class in the order that they appear here (there may be exceptions based on current events). The Mankiw textbook chapter(s) cross-referenced to each topic are from the 6<sup>th</sup> edition, on-reserve for students at the library. Students are encouraged to study these topics before they are presented in class so that they may participate in class discussion and understand the material as it is being presented. If students miss a class they should get lecture notes for that class from a colleague, all exam and quiz questions will come from material presented in class and from class discussions.*

*How people make decisions (Praxeology)*

### **1. People face trade-offs**

- |   |                  |
|---|------------------|
| a. Efficiency versus Equality, positive & negative rights | Ch.1, Lecture    |
| b. Marx, Veblen, Hayek on inequality                      | Lecture          |
| c. Bankruptcy of welfare-state                            | Ch.1, Lecture    |
| i. demographic shifts, ii. “fiscal cliff”                 | Lecture, Youtube |
| iii. “Life-cycle economics” and inequality                |                  |
| d. Redistribution and negative/positive rights            |                  |

### **2. The cost of something is what you give up to get it**

- |   |                 |
|---|-----------------|
| a. Production Possibility Frontier, opportunity cost, economic growth and trade-offs in G, C versus I | Ch.2<br>Lecture |
| b. Opportunity cost, time-preferences and Loanable Funds (LF) Market,                                 | Ch.13           |
| i. capital structure and stages of production under natural rate of interest                          | Lecture         |

### **3. Rational people think at the margin**

- |   |                  |
|---|------------------|
| a. Adam Smith, i. personalized relationships (approbation/sympathy) | Smith 1759       |
| i. depersonalized relationships (self-interest, “invisible hand”)   | Ch.1, Smith 1776 |
| b. extent of market and econ growth                                 |                  |
| c. decentralization, secession and Brexit vote                      | Lecture          |
| d. critique of specialization and factory labor                     | Chaplin youtube  |
| e. Milton Friedman on greed   | Youtube          |
| f. Marginal Utility, marginal utility of money,                     | Ch.14            |

- and debate over interpersonal comparisons of utility (IPCU)
- g. discussion on “rationality, “greed,” “self-interest”
- h. the Action Axiom
- i. Demand Curve, movements and shifts Ch.4
- j. Supply Curve, movements and shifts
- k. Normal, inferior, luxury, Veblen & experience goods Lecture

**4. People respond to incentives**

- a. Tax and subsidy incentives (discussion) Ch.13
- i. introduction to rent-seeking and public choice: US agriculture Lecture, Krueger 1974
- policy, crony-capitalism *Economist* index
- ii. Laffer Curve and taxes Ch.8

*How people interact (Catallaxy)*

**5. Trade can make everyone better-off**

- a. Comparative Advantage Ch.3
- b. Supply & Demand, i. Consumer and Producer Surplus Ch.7
- ii. assumptions under “perfect competition”
- c. factors of production and factor mobility
- d. emerged price and quantity & disbursed knowledge
- e. Marginal Productivity Theory of Distribution and the creation of value Lecture
- f. rent-seeking in trade and the production possibility frontier Krueger 1974

**6. Markets are usually a good way to organize economic activity**

- a. Deadweight Loss (DWL) of government intervention (tax example) Ch.8
- b. Rent-seeking and transfer of surplus to special interests, Krueger 1974
- Economist* cronyism index
- c. “Knowledge problem,” “fatal conceit,” prices and social crisis Hayek 1945
- d. Unintended Consequences of government intervention into markets, Lecture
- i. International war on drugs, ii. Rent control, iii. Minimum wage, Ch. 4
- iv. Solar panels, v. Price controls and disaster response Lecture
- e. Factor mobility, price adjustments, “knowledge problem” and Hayek 1945
- regulatory capture theory, *WSJ*, Lecture
- i. bond rating, ii. BP Gulf of Mexico, iii. Madoff,
- iv. VW emissions examples
- f. Affordable Care Act of 2010 as regulatory capture and rent-seeking

## 7. Governments can sometimes improve market outcomes

- |  |                                 |
|--|---------------------------------|
| a. Property rights and investment                            | Ch.1 &12, economicfreedom.org   |
| b. Externalities & spillovers: market failures, public goods | Ch.1 & 7                        |
| c. Market vs “command and control,” Coase Theorem            | Lecture                         |
| d. Economic and paternalist roles for government,            |                                 |
| i. “job creation”  | Phelps 2015                     |
| e. Bond ratings, risk and (real) returns, Fisher Effects     | Ch. 8, Lecture                  |
| f. Robert Higgs “Regime Uncertainty”,                        | Youtube, Lecture                |
| i. yield curves & risk premia on future                      | <i>New York Times</i> , Lecture |

*How the economy as a whole works (Macroeconomics)*

## 8. A country’s standard of living depends on its ability to produce goods and services

- |  |                        |
|--|------------------------|
| a. Keynesian equation and measurement of the economy,<br>Gross Domestic Product (GDP) v. Gross Output (GO) | Ch.10<br>Lecture       |
| b. Productivity (Y/N)  | Ch.1                   |
| c. Burden of Government (G/Y) historically considered  | Lecture                |
| d. Oppt. cost: Investment versus Consumption & Government  |                        |
| e. Historical economic growth under capitalism revisited   | Ch.12, Lecture         |
| i. classical liberal, early capitalism vs. modern capitalism   |                        |
| f. Bretton Woods: IMF, WB, WTO, unintended consequences  | Youtube, Ch.9, Lecture |

## 9. Prices rise when the government prints too much money

- |  |                      |
|--|----------------------|
| a. The three properties of money   | Lecture, Menger 1892 |
| i. means of exchange, ii. unit of account, iii. store of value   |                      |
| b. Quantity theory of money (MV=PQ)  | Ch.8                 |
| i. Keynesian, ii. Monetarist, iii. Austrian monetary theories  | Lecture              |
| iv. Skyscraper Index and Austrian Capital Theory   |                      |
| c. Consumer Price Index (CPI)  | Shadowstats.com      |
| d. Distribution effects of inflation,  | Doug French Youtube  |
| i. inflation as invisible regressive tax   | Lecture              |
| e. International goods and money flows   | Ch.17 & Lecture      |
| i. Current account and capital account, ii. International<br>Fisher Effects, iii. Purchasing Power Parity (PPP), | Big Mac Index        |
| iv. Foreign Direct Investment vs. Portfolio Investment,  | Ch.17                |
| v. International carbon and foreign exchange (ForEx) taxes   | Lecture              |

## 10. Society faces a short-run trade-off between inflation and unemployment

- |  |                        |
|--|------------------------|
| a. The Business Cycle and counter-cyclical intervention,<br><i>Hardfire TV</i> “The Problem with Macroeconomics” | Ch.1, 20 & 22          |
| b. Definitions of unemployment   | Ch.22, Shadowstats.com |
| i. “natural rate,” ii. “cyclical,” iii. “structural,” iv. Labor Force  | Lecture                |

- Participation Rate as new normal (?)
- c. Definition of Inflation, i. indexing, surveys & experts vs. subjective time-preference and natural rate of interest
- d. Definitions of Recession and Depression

*I. Fiscal Policy*

- a. Keynesian “Demand-Side” fiscal policy & Aggregate Demand (AD) Ch.21
- b. Keynesian fiscal multiplier, i. knowledge problem, NBER and fiscal policy lag-time Lecture
- c. Government deficit spending & “crowding-out” in LF Market Ch.22
- d. Demand-side v. Supply-side economics Ch.21, Lecture

*II. Monetary Policy*

- a. Philips curve, long- and short-term monetary policy Chs. 21 & 16
- b. Federal Reserve monetary policy,
  - i. Federal Open Market Operations (FOMC), monetary multiplier
  - ii. Monetary policy lag-time, iii. “pushing on a string” Lecture, O’Driscoll 2016
- c. Classical vs. modern Lender of Last Resort Bagehot 1873, Lecture
- d. “Systemic risk” and “too big to fail”, Lecture
- e. “Socialized risk and private profits”
- f. Central Bank dual vs. single mandate Lecture, Selgin youtube
- g. Debate on Keynesian versus Austrian Economics, Youtube
- h. “stagflation,” Keynes v Hayek parts II & III

Film: *U.N. Me* (2009) or *Atlas Shrugged* (2011)

**Class group presentations on “Economists Agree”**

**Final Exam**

SUMMARY OF CLASS SCHEDULE:

- First day of class: January 17, 2018
- Homework I due: Jan. 31
- Homework II due: February 14
- Spring break: No class Feb. 21
- Midterm Exam: March 7
- Midterm grades due: March 10
- Optional groups sign-up due: March 14
- Groups assigned: March 21
- No class (Monday classes meet): March 28
- Quiz on Supply and Demand: April 11
- Group presentations: April 25
- Study/snow day: May 2
- Final exam week (date and time of final exam determined later in the semester by the university): May 3 - 9