

**ST. JOHN'S UNIVERSITY
NEW YORK**

Tobin College of Business
Department of Economics and Finance

SYLLABUS

Principles of Economics I

ECO 1301-10770

Spring 2018

T, F; 7:30 – 8:55 am, BENT 219

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Office hours: T, F 11 am – 1 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 should:

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 6th 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. Relating current events will allow students to contribute to class discussion and more fully comprehend the course material as presented in class.

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>

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

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://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

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 Tobin School.

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.

Exams: 40%

There are be 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, as is the discipline of economics. 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.

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 listed in this syllabus and discussed in class. Students should ask clarifying questions (part of class participation) as needed on this material as presented in class in order to do well on the quiz.

Homework Writing Assignments: 15%

There are two homework assignments for this class. Students should familiarize themselves with the Foundation for Economic Education (fee.org) and their posts (“stories”) 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 about. Each essay should be about 250 words (use a word count and indicate the number of words on the assignment) 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, about 250 words in length total, and you address 1) and 2) then you will receive full credit for each assignment. The homeworks are to be submitted in hard-copy on the due-date.

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. (“Economists Agree” is discussed in more detail in first chapter of the Mankiw book for our class on reserve at the library.) Groups can use the chalk/marker board, PowerPoint and/or youtube found or 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 what economic concepts group members disagree over and why. Groups should reference at least two sources for each proposition in their research and presentation.

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 will be 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 6th 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 | Lecture |
| d. Redistribution and negative/positive rights | |

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

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|---|-----------------|
| a. Production Possibility Frontier, opportunity cost, economic growth and trade-offs in G, C versus I | Ch.2
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

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|--|------------------|
| a. Adam Smith, i. personalized relationships (approbation/sympathy) | Smith 1759 |
| ii. depersonalized relationships (self-interest, “invisible hand”) | Ch.1, Smith 1776 |
| iii. decentralization, secession and Brexit vote | Lecture |
| iv. specialization of labor, extent of market & econ growth | Chaplin youtube |
| b. Milton Friedman on greed | Youtube |
| c. Diminishing Marginal Utility, marginal utility of money, and debate over interpersonal comparisons of utility | Ch.14 |

- d. discussion on “rationality, “greed,” “self-interest”
- e. the Action Axiom
- f. Demand Curve, movements and shifts Ch.4
- g. Supply Curve, movements and shifts
- h. Normal, inferior, luxury, Veblen & experience goods Lecture

4. People respond to incentives

- a. Tax and subsidy incentives Ch.13 i.
- introduction to rent-seeking & public choice, US agriculture law Lecture, Krueger 1974
- b. Laffer Curve and taxes Ch.8
- c. discussion on incentives

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,”
- iii. factors of production and factor mobility,
- iv. emerged price and quantity & dispersed knowledge
- c. Marginal Productivity Theory of Distribution and the Lecture
- creation of value
- d. 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 & solar panel protectionism, Ch. 4
- ii. Rent control, iii. Minimum wage,
- iv. Price controls and disaster response Ch. 4, Lecture
- e. Factor mobility, price adjustments, “knowledge problem” and Hayek 1945
- f. Regulatory capture theory, WSJ, Lecture
- i. bond rating, ii. BP Gulf of Mexico, iii. Madoff, iv. VW examples
- g. 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”

- e. Bond ratings, risk and (real) returns, Fisher Effects
- f. Robert Higgs “Regime Uncertainty”,
- i. Yield curves & risk premia on future

Ch. 8, Lecture
 Youtube, Lecture
New York Times, 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, Gross Domestic Product (GDP) v. Gross Output (GO) Ch.10
Lecture
- b. Productivity (Y/N) Ch.1
Lecture
- c. Burden of Government (G/Y) historically considered
- d. Opt. 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
Lecture
 - i. Keynesian, ii. Monetarist, iii. Austrian monetary theories
 - iv. Skyscraper Index and Austrian Capital Theory
- c. Consumer Price Index (CPI) Shadowstats.com
- d. Distribution effects of inflation, Doug French Youtube
Lecture
 - i. inflation as invisible regressive tax
 - e. International goods and money flows Ch.17 & Lecture
 - i. Current account and capital account, ii. International Fisher Effects, iii. Purchasing Power Parity (PPP),
 - iv. Foreign Direct Investment vs. Portfolio Investment, Big Mac Index
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, Ch.1, 20 & 22
Hardfire TV “The Problem with Macroeconomics”
- b. Definitions of unemployment Ch.22, Shadowstats.com
Lecture
 - i. “natural rate,” ii. “cyclical,” iii. “structural,” iv. Labor Force 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 Lecture
fiscal policy lag-time
- 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)

Class group presentations on “Economists Agree”

Final Exam

SUMMARY OF CLASS SCHEDULE:

First day of class: January 19, 2018

First homework essay due: Jan. 30

Last day to drop class without transcript notation: Feb. 6

Second homework essay due: Feb. 13

Spring break (no class): Feb. 20 & 23

Midterm exam: March 6

Midterm grades due: March 10

Optional groups sign-up due: March 16

Groups assigned: March 20

Easter (no class): March 30

Quiz on Supply and Demand: April 6

Group presentations: April 20, April 24 and April 27

Study/snow day: May 1

Final exam week (date and time of final exam determined later in the semester by the university):

May 4 or May 8