

ST. JOHN'S UNIVERSITY
NEW YORK

THE PETER J. TOBIN COLLEGE OF BUSINESS

Department of Economics and Finance

SYLLABUS

ECO1302: Principles of Economics II (Microeconomics), CRN: 10012
Spring 2018: Monday and Thursday, 9:05 – 10:30 am, SJH 310

Instructor: Cameron M. Weber, Ph.D.
website: cameroneconomics.com, syllabus is located on “teaching” page

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Instructor office hours: M, Th; 12:30 – 2:00 pm, or by appointment, SJH B17

DEPARTMENT: Economics and Finance

COURSE NAME: Principles of Economics II

COURSE NUMBER: ECO1302

COURSE DESCRIPTION

This course introduces the theory of a firm and the markets it operates in. It focuses on determining the level of output and prices for firms, and on various market structures with respect to levels of competition.

PREREQUISITE: None

CREDITS: 3 credit hours

OBJECTIVES OF THE COURSE

The objective of the course is to offer students basic knowledge of economic theory and to develop a systematic way of thinking about factors that affect business firms. The material covered will help students solve various problems common to firms operating in different business environments, while providing a base of knowledge that will serve as a foundation for future economic and finance courses as well as other business disciplines.

Students will learn to:

1. Analyze the microeconomic decisions made by the consumer and the firm, from the perspectives of efficiency and equity.
2. Understand the market structure within which the consumer and the business firm function.
3. Study the factor markets and income distribution.
4. Investigate the interdependence of national economies in the context of international trade
5. Learn of other schools of economic thought different from mainstream economics, such as Marxian, Public Choice, Institutional and Austrian economics, in order to understand the differing views of societal economic organization and economic regulation that these perspectives offer.

RESOURCES AND READINGS

Main Text (Recommended but is also available at library)

N. Gregory Mankiw, *Principles of Microeconomics*, any edition (the 6th edition is available on-reserve for students at the SJU library). Mason, OH: South-Western.

In addition, students should stay current on topical events in the economy by reading the *Economist* magazine, the *New York Times*, the *Wall Street Journal* and/or the *Financial Times* and/or industry publications relating to specific areas of study in order to better enable class comprehension and discussion.

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.

Michele Boldrin and David K. Levine. 2008. *Against Intellectual Monopoly*. [<http://www.dklevine.com/general/intellectual/againstfinal.htm>.]

Ronald Coase (1937). "Nature of the Firm", <http://cameroneconomics.com/coase%201937.pdf>

Friedrich Hayek (1945). "The Use of Knowledge in Society." <http://www.econlib.org/library/Essays/hykKnw1.html>

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.

Anne O. Krueger (1974). "The Political Economy of the Rent-Seeking Society." <http://cameroneconomics.com/kreuger%201974.pdf>

Alfred Marshal (1920). *Principles of Economics*, New York: MacMillan Co.

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>

G. Warren Nutter and Henry Adler Einhorn (1969). *Enterprise Monopoly in the United States: 1899-1958*. Columbia University Press.

Gerald P. O'Driscoll, Jr. (1978). "Spontaneous Order and the Coordination of Economic Activities."
http://oll.libertyfund.org/?option=com_staticxt&staticfile=show.php%3Ftitle=106&chapter=6050&layout=html&Itemid=27

Charles P. Oman (1999). "Policy Competition for Foreign Direct Investment." OECD. <http://www.oecd.org/mena/investment/35275189.pdf>

Mario Rizzo (1978). "Praxeology and Econometrics: A Critique of Positivist Economics", in Spadaro, ed.
<http://cameroneconomics.com/new%20directions.pdf>

Edmund Phelps (2015) "What is Wrong with the West's Economies?" *New York Review of Books*. (Available on 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.)

Hal Varian (1978). *Microeconomic Analysis*. New York: W.W. Norton & Company, available as ebook,
<http://www.torrentz.com/6a249eb6521548a8bcdf607e22375a5a173ca889>

Thorstein Veblen ([1899] 2001). *The Theory of the Leisure Class: An Economic Study of Institutions* by New York: Macmillan.

Wall Street Journal (2014). "Regulatory Capture Theory 101", October 16, available on instructor's website.

Cameron Weber (2012). “Absentee Ownership in America”, available on instructor’s website.

Elizabeth Wurtzel (2014). *Creatocracy: How the Constitution Invented Hollywood*. Brooklyn: Thought Catalog Books.

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

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

The Formula (film) (1980), directed by John G. Avildsen.

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

F.A. Hayek and James Buchanan on positivism versus pattern prediction
<https://www.youtube.com/watch?v=kzNpD9DXU2w>

F.A. Hayek and Robert Bork on “intellectuals”, positivism and anti-trust regulation, <https://www.youtube.com/watch?v=km0-La2gGt4>

“Quantitative Easing Explained”,
<http://www.youtube.com/watch?v=PTUY16CkS-k>

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>

“Keynes v Hayek Part 3”,
<https://www.youtube.com/watch?v=ZYwHCWkOB08>

“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>

Websites as supplemental materials

US Department of Justice Anti-Trust Division case-filings,
<http://www.justice.gov/atr/antitrust-case-filings>

World Trade Organization (WTO) anti-dumping gateway,
https://www.wto.org/english/tratop_e/adp_e/adp_e.htm

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

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://www.nber.org)

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

[Mygovcost.org](http://www.mygovcost.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	15%
Midterm Exam	15%
In-Class Quiz	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

Each student is assessed during the final examination by several questions that are given to all students taking the various sections of the same course with Tobin.

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, course-relevant topics 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, 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 on campus, 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, 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 (part of the class participation grade) 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 Tobin and 30 questions from the instructor.

In-Class Quiz: 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. Students should familiarize themselves with the Foundation for Economic Education (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). Students will choose one FEE story to write a paragraph about for each homework assignment. The paragraph should be about 250 words (indicate the number of words on the homework) 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 paragraph about 250 words in length, and you address 1) and 2) then you will receive full credit for the assignment.

Group Research and Presentations: 15%

For the group project students will choose a research topic related to current events in microeconomics and industrial organization and do group research and a group presentation on the topic. There are some suggested topics on the instructor’s website, however student groups are able to select their own topic as long as they discuss the topic with the instructor first. Each topic will be presented only once so if students are interested in a topic they should sign-up. Students can sign-up before the due date for presentations and topics, any student who has not signed-up or any groups without topics, will be assigned by the instructor (see the class schedule at the end of the

syllabus). The instructor will make available the group sign-up sheet throughout the semester.

The groups will be between 4 and 6 students each and presentations are to be between 10 and 15 minutes each. Presentations can include any type of presentation material (“chalk and talk,” PowerPoint, youtube videos, etc.). Each research topic and presentation should include at least four references, the Mankiw text and class lectures can be included as a reference as can articles in the press, on-line or in peer-reviewed journals. At the end of each presentation we will leave 5 minutes for group-led questions and answers and discussion.

Half of the group grade will come from the instructor and half from students. The instructor will distribute peer-review grading sheets to students prior to the presentations at the end of the semester. Attending the presentations and turning in a completed peer-review sheet also adds to the class participation grade for the semester.

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 to do research in order 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 missed work, 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 and review of ECO1301 principles: 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” and “Fight of the Century” youtube, *Hardfire TV* “The Problem with Macroeconomics”

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

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|--|----------------------------|
| a. Efficiency versus equality, positive & negative rights, economic growth and reduction in absolute poverty | Ch.1, Lecture |
| b. Marx, Veblen, Hayek on inequality | Lecture |
| c. Bankruptcy of welfare-state | Ch.1, Lecture, Phelps 2015 |
| i. demographic shifts, ii. “fiscal cliff” | Lecture, Youtube |
| iii. “Life-cycle economics” and inequality | |

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

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|--|---------|
| a. Production Possibility Frontier, opportunity cost | Ch.2 |
| b. Opportunity cost, time-preferences and Loanable Funds (LF) market, 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, personalized v. depersonalized relationships,
i. secession and case study on “Brexit” and Catalonia | Lecture
Smith 1759 & 1776
Ch.1 |
| b. Smith on specialization of labor, trade, extent of market,
capital accumulation and economic growth, ii. “invisible hand”
and “rising tide” | |
| c. Critique of specialization and factory labor | Chaplin Youtube |
| d. Milton Friedman on greed | Youtube |
| e. discussion on “self-interest,” “greed,” “rationality” | |
| f. Austrian school “human action” axiom | |
| g. Diminishing marginal utility, and debate over the possibility
of interpersonal comparisons of utility and utility of money | Lecture
Phelps 2015 |
| h. price signal, local & decentralized decisions | Hayek 1945
Ch.4 |
| i. Demand Curve, movements and shifts | |
| j. Supply Curve, movements and shifts | |
| k. Intro to price elasticity, OPEC oil shock example | Chs.5,6 |
| l. Normal, inferior, Veblen, experience and luxury goods,
positional goods, compliments and substitutes and competition | Ch.4, Lecture |

4. People respond to incentives

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|---|---|
| a. Tax and subsidy incentives | Ch.6 |
| b. The Laffer Curve and Supply-side economics, examples
from history (English “corn laws” and Reaganomics) | Ch.8
Lecture |
| c. Intro to rent-seeking and public choice, i. US agriculture
legislation (social and corporate welfare, “log-rolling”),
ii. trade barriers and Production Possibility Frontier | Krueger 1974 |
| d. Crony-capitalism | <i>Economist</i> crony capitalism index |

How people interact (Catallaxy)

5. Trade can make everyone better-off

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|---|----------------|
| a. Comparative Advantage | Lecture, Ch.3 |
| b. Supply & Demand, Consumer and Producer Surplus | Ch.7 |
| c. Bond theory and capital flows | Lecture |
| d. International Trade Balance of payments i. Current and Capital
accounts, ii. International Fisher Effects, interest rates, exchange rates | |
| e. Marginal Productivity Theory of Distribution (MPTD)
and value creation | Lecture, Ch.13 |

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

Unintended Consequences of Government Intervention

- a. Deadweight Loss (DWL) of government intervention (sales tax example) Ch.8
- b. Unintended consequences of government intervention into markets, Lecture
- i. International war on drugs, ii. Rent control, iii. Minimum wage, Chs.4, 20
- iv. Disaster economics: building supplies and gas price controls,
- v. market for solar panels in USA and “super profits” as surplus transfer
- vi. Elasticities, unintended consequences and tax on luxury goods Ch.8
- c. Factor mobility and price adjustments, local and limited Hayek 1945
- information, the expert “knowledge problem,” “fatal conceit” Lecture
- and social crisis
- d. Regulatory capture theory and public choice economics, Lecture
- i. bond ratings, ii. BP Gulf of Mexico, iii. Madoff, and WSJ Capture 101
- iv. VW emissions and fuel efficiency examples Lecture
- e. Affordable Care Act of 2010 as regulatory capture and rent-seeking

Theory of the Firm and Competition

Coase 1937, Chs.14-17

- a. From perfect competition to monopoly and needed assumptions
- b. Monopolistic competition, oligopoly and price elasticities of demand
- c. Marshallian cost curves versus First Mover Advantage (FMA) Lecture
- i. firm supply curve as “price-taker”, “normal profit” ($p^*=ATC=MC$)
- ii. firm as “price-maker”, the marginal revenue curve and “above-normal” profits ($p>ATC=MC$)
- d. Stages of production, tax incentives and firm size Lecture, Weber 2012
- e. Partial equilibrium v. General equilibrium
- f. Positivist economics, anti-trust regulation and FMA
- g. Hayek and Bork on positivism, models and ‘intellectuals’ Youtube
- h. Who decides? Consumer sovereignty v. ‘experts’, Hayek and Rizzo 1978
- Buchanan on “pattern prediction”, pattern of outcomes v. positivism Youtube, Lecture
- i. The ‘new economy’ (gig and sharing economy) versus vested interests Lecture

[We will do the following material only if time during the semester]

7. Governments can sometimes improve market outcomes

- a. Property rights and investment Chs.1,11; Economic Freedom Index
- b. Debate over intellectual property rights, Boldrin 2008, Wurtzel 2014
- ii. Model of IPR as necessary for innovation Lecture
- iii. Model of IPR as rent-seeking
- c. Externalities: market failures, public goods Chs.7,11; Lecture
- d. Education as public good under ‘capitalism’ Charlie Chaplin youtube redux

- e. Economic and paternalist roles for government Lecture
- f. Robert Higgs' "Regime Uncertainty" and risk-premia Lecture, youtube

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. Productivity (Y/N) Chs. 1, 18
- b. Burden of Government (G/Y) historically considered, Lecture
"new normal" bailouts and cronyism, labor force participation rate
- c. Investment versus consumption and economic growth
- d. Bretton Woods (IMF, WB, WTO) Keynes v. Hayek Part 3 youtube
- i. WTO, anti-dumping positivism ($P < MC = ATC$), Lecture
- ii. First Mover Advantage and WTO countervailing duties
- iii. rent-seeking and trade in agricultural and manufactured goods

Film: *U.N. Me* (2009)

9. Prices rise when the government prints too much money

- a. Quantity theory of money ($MV = PQ$) Ch. 1, Lecture
- i. Keynesian, ii. Monetarist, iii. Austrian monetary theories Lecture
- b. Consumer Price Index (CPI) Shadowstats.com
- c. Distributional effects of inflation Doug French youtube

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

- a. The Business Cycle Ch. 1, Lecture
- b. The Philips Curve relationship between unemployment, long- and short-term, i. definitions of unemployment and ii. labor force participation rate
- c. "Creative Destruction" and the microeconomics of the business cycle Lecture
- d. "Supply-Side" versus "Demand-Side" economics Lecture
- e. Debate on Keynesian versus Austrian Economics youtube

Class group presentations, peer reviews

Final Exam

SUMMARY OF CLASS SCHEDULE:

First day of class: January 18, 2018

Homework One due: Jan. 29

Last day to drop/add without transcription notification: February 6

Homework Two due: Feb. 12

Spring break (no class): Feb. 19 and 22

Midterm Exam: March 5

Midterm grades due (freshman only): March 10

Last day for voluntary group project sign-up: March 15

Final group assignments: March 19

Easter (no class): March 29

Quiz on supply and demand: April 5

Group presentations: April 23, 26 and 30

Last day of class: April 30

Final Exam: Scheduled later in the semester by the university, May 3 - 9