

An Introduction to Economic Principles

Autonomous On-Line Learning

Introduction:

An introduction to economics as it has evolved in the institutions of higher learning in the United States has meant two semesters. The first is Econ 101 which is “macroeconomics” and the second is Econ 102 which is “microeconomics.” It is possible to combine these two one-semester courses into one course of study, without losing, and in fact gaining, knowledge in that the same economic ideas apply to both. It is only over-specialization and employment-creation for economics teachers which requires the teaching of basic economic principles to be divided arbitrarily.

This syllabus combines Econ 101 and Econ 102 and will be called An Introduction to Economic Principles.

The economic principles presented here are based on more than 10 years of teaching and refining how to present basic ideas of economics while using current and historical examples. I created the “Cameron’s Teaching Modules” on YouTube to capture these ideas, which form the basic building blocks of this virtual teaching. I tried to capture many if not most of the fundamental concepts in non-technical economics with these teaching modules.

Thank you,

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RESOURCES AND READINGS

N. Gregory Mankiw, *Principles of Macroeconomics*, South-Western (Any edition; the chapters listed below are from the 6th edition, which covers more public choice economics than does subsequent editions). As long as you understand the teaching modules and other materials, there is no need for the textbook.

The learning sequences are available on YouTube under the “Cameron’s Teaching Modules” channel and additional resources can be found on my cameroneconomics.com, "Teaching" page.

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.

John F. Cogan (2017). *High Cost of Good Intentions: A History of U.S. Federal Entitlement Programs*. Stanford.

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.

Brink Lindsey & S. M. Teles (2017). *The Captured Economy: How the Powerful Enrich Themselves, Slow Down Growth, and Increase Inequality*. Oxford University Press.

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>

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

J. Rothwell (2017). "The Myth of the 1%: What Puts Some People at the Top", *New York Times*, November 24, 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.

Cameron Weber (2018). "Some Observations on the Structure of the Labor Market after the Great Recession", presentation for the World Economic Association, available, <http://cameroneconomics.ipower.com/cmw-WEA-2018.pdf>

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

David Friedman, on "Price Theory",
<https://www.youtube.com/watch?v=VKG9jPylGAg>

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>

“Hayek on Keynes’ Ignorance of Economics”,
<https://www.youtube.com/watch?v=y8l47ilD0II>

“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>

Hardfire TV, various,
<https://www.youtube.com/channel/UCYjy5RM1fUDR5mD2cOaPbUA>

Websites as supplemental materials

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

Mygovcost.org

<https://www.fraserinstitute.org/studies/economic-freedom>

<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

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.

From “Cameron’s Teaching Modules” on YouTube: Sowell’s Rule, Keynesian v Hayekian Ideal-Types, Economic Growth and Size of the State in Historical Perspective

Other materials: “Fear the Boom and Bust” YouTube

The Mankiw textbook chapter(s) cross-referenced to each topic are from the 6th edition.

How people make decisions (Praxeology)

1. People face trade-offs

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|--|---------------|
| a. Efficiency versus Equality | Ch.1 |
| b. Marx, Veblen, Hayek on inequality | |
| c. Bankruptcy of welfare-state | Ch.1 |
| i. demographic shifts, ii. “fiscal cliff” | YouTube |
| iii. “Life-cycle economics” and inequality | Rothwell 2017 |
| d. Redistribution and negative/positive rights | |

From “Cameron’s Teaching Modules” on YouTube: Efficiency v. Equality, Negative and Positive Rights, Demographic Shifts, Life-Cycle Economics

Other Materials: “Fiscal Cliff” YouTube

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-off in G, C versus I | Ch.2 |
| b. Opportunity cost, time-preferences and Loanable Funds (LF) Market, | Ch.13 |
| i. capital structure and stages of production under natural rate of interest | |

Teaching Modules: Factors of Production, Production Possibility Frontier One and Two, Loanable Funds Market, LF Market & Pay Day Loans

3.Rational people think at the margin

- 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 Hardfire TV
- iv. specialization of labor, extent of market & econ growth YouTube
- b.Milton Freidman on greed YouTube
- c. From labor theory of value to subjective value in demand, Wundt curve, “marginal revolution”
- c.Marginal Utility, marginal utility of money, Ch.14
and debate over interpersonal comparisons of utility (IPCU)
- 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

Teaching Modules: Adam Smith One and Two, Marginal Revolution & Utility, Interpersonal Comparison of Utilities?, Economic Rationality, Demand and Supply Shifts, Goods Typologies

Other Materials: Charlie Chaplin YouTube, Milton Friedman On Greed YouTube, Hardfire TV: Why Adam Smith is not a Free-Market Economist

4.People respond to incentives

- a.Tax and subsidy incentives, tax revenues and expenditures Ch. 13
- i. introduction to rent-seeking and public choice, US agriculture law, “crony capitalism” *Economist Index*
- ii. ‘Bootleggers and Baptists’, faction, special interests
- b. Laffer Curve and taxes Ch.8
- c. discussion on incentives YouTube

Teaching Modules: Taxes and Subsidies, Rent-Seeking Explained, Laffer Curve

Other Materials: David Friedman YouTube

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 & disbursed knowledge Hayek 1945

- c. Marginal Productivity Theory of Distribution and the creation of value
- d. rent-seeking in trade and the production possibility frontier Krueger 1974

Teaching Modules: Comparative Advantage, S&D Surplus and DWL of Intervention, Marginal Productivity Theory of Productivity, Rent-Seeking & Production Possibility Frontier

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

Unintended Consequences of Government Intervention

- 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,
- i. International war on drugs, ii. Rent control, iii. Minimum wage, Ch. 4, Hardfire TV
- iv. Price controls and disaster response, v. solar panels
- vi. Tuition, healthcare & barriers-to-entry Lindsey & Teles 2017
- vii. Elasticities and tax on luxury goods
- e. Factor mobility, price adjustments & knowledge problem Hayek 1945
- f. Regulatory capture theory, *WSJ*
- i. bond ratings, ii. BP Gulf of Mexico, iii. Madoff, iv. VW examples
- g. Affordable Care Act of 2010 as regulatory capture and rent-seeking

Teaching Modules: S&D Surplus and DWL of Intervention, S&D Hemp, S&D Rental Housing, S&D Wage-Labor Market, S&D Solar Panels, S&D Higher Education, S&D Healthcare, Unintended Consequences and Tax on Luxury Goods, Deepwater Horizon Capture, Madoff Capture, Bond Ratings Capture One and Two

Other Materials: Hardfire TV: Economics of Disasters

Theory of the Firm and Competition Coase 1937, Chs.14-17

- a. Why the Firm?
- b. From perfect competition to monopoly and needed assumptions
- c. Monopolistic competition, oligopoly and price elasticities of demand
- d. Marshallian cost curves versus First Mover Advantage (FMA)
- 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 ($p > ATC = MC$)
- e. Stages of production, tax incentives and firm size Weber 2012
- f. Partial equilibrium v. General equilibrium
- g. Positivist economics, anti-trust regulation and FMA
- h. Hayek and Bork on positivism, models and ‘intellectuals’, YouTube

- critique of regulatory measurements Weber 2019, Kreuger 2019
- i. Who decides? Consumer sovereignty v. ‘experts’, Hayek and Rizzo 1978
- Buchanan on “pattern prediction”, pattern of outcomes v. positivism
- j. ‘New economy’ versus vested interests Weber 2017

Cameron’s Teaching Modules: Competition Theory, Marshallian Cost Curves, Competition and FMA, Financialization and Absentee Ownership, Perfect Competition and Pattern Prediction

Other Materials: Hayek and Bork on Intellectuals YouTube, Hayek & Buchanan on Pattern Prediction and Scientism

7. Governments can sometimes improve market outcomes

- a. Property rights and investment Ch.1 &12, Frazier Institute
- b. Externalities & spillovers: market failures, public goods Ch.1 & 7, Hardfire TV
- c. Market vs “command and control,” Coase Theorem
- d. Economic and paternalist roles for government,
- i. “job creation”
- e. Bond ratings, risk and (real) returns, Fisher Effects Ch.8, Hardfire TV

Teaching Modules: Intro to “Public Goods”, From Public Goods to Paternalism, Market Failure & Coase Theorem, What is a Bond?, Bond Theory and Capital Flows, Financial Cronyism in the USA

Other Materials: Hardfire TV: Why People are Leaving New York, Hardfire TV: Public Goods

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

Teaching Modules: Keynesian v Hayekian Ideal-Types; Productivity, Inflation, Real Income; Production Possibility Frontier Two, Historical Perspective, Bretton Woods

Other Materials: Hayek v Keynes Part 3 YouTube

9. Prices rise when the government prints too much money

- a. The three properties of money 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
 - iv. Skyscraper Index and Austrian Capital Theory
- c. Consumer Price Index (CPI), real income Shadowstats.com
- d. Distribution effects of inflation, YouTube
 - i. inflation as invisible regressive tax
- e. International goods and money flows Ch.17, YouTube
 - i. Current account and capital account, ii. International Fisher Effects

Teaching Modules: Properties of Money, Quantity Theory of Money, Bond Theory & Capital Flows, Inflation as Regressive & Invisible Tax

Other Materials: Doug French YouTube, Hardfire TV: Balance of Payments

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

- a. The Business Cycle and counter-cyclical intervention Ch.1, 20 & 22
- b. Definitions of unemployment Ch.22, Shadowstats.com
 - i. “natural rate,” ii. “cyclical,” iii. “structural,” iv. Labor Force Participation Rate as new normal ? Weber 2018
- c. Definition of Inflation, i. indexing, surveys & experts vs. subjective time-preference and natural rate of interest
- d. Definitions of Recession and Depression

Teaching Modules: Definitions of Recession & Depression, Definition of Unemployment with Implications for Today’s Coronavirus, Inflation as Regressive & Invisible Tax

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
- c. Government deficit spending & “crowding-out” in LF Market Ch.22
- d. Demand-side v. Supply-Side economics Ch.21

Teaching Modules: Crowding-out in LF Market, Supply-side v Demand-side Economics

Other Materials: Hardfire TV: The Problem with Macroeconomics

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” O’Driscoll 2016
- c. Classical vs. modern Lender of Last Resort Bagehot 1873
- d. “Systemic risk” and “too big to fail”
- e. “Socialized risk and private profits”
- f. Debate on Keynesian versus Austrian Economics YouTube

Teaching Modules: Philips Curve, Federal Reserve Open Market Committee, Classical v. Modern Central Banking, International Central Banking Systemic Risk

Other Materials: Hardfire TV: The Problem with Macroeconomics, Fight of the Century YouTube, Hayek on Keynes’ Ignorance of Economics YouTube, Stand-up Economist YouTube