

-Syllabus and Course Outline-

Introduction to Economic Thinking

ECO 2000

Randall Holcombe

Fall 2007

Textbook: *Economics and Contemporary Issues*, 7th ed., by Moomaw and Olson.

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Graduate Assistant: My TA for this course is Will Doerner. His office is BEL 273. He will be holding office hours in the economics help room, which is BEL 205, and we will announce his office hours in class. Mr. Doerner will grade the examinations under my guidance, assist with the grading of the papers, and hold office hours to help students with any problems.

The economics department is now staffing a full-time help room for all 2000-level courses in Bellamy Building room 205. Hours will be announced in class. You can go there any time the help room is open for help, but if you can go when Mr. Doerner is there, that might be best.

Course Objectives: To provide a basic understanding about the way the economy works, why market economies have become wealthy, the effects of government policies on the economy, and to become familiar with the basic tools of economic analysis.

Course Outline: The course will follow the outline in the syllabus. Each section in the outline has reading assignments that accompany the section, but there is not an exact correspondence between the reading and the outline. Some policy issues and other material covered in the reading will not be discussed in class, and some material covered in class is not in the book. Often, there is no good reason to repeat material in class that you can read in the book, and this allows more class time to be devoted to material you cannot find in the book. You are responsible for both the material in the class and the material in the book, and there will be test questions from both.

Examinations and Grades: Your grade will be based on three in-class examinations, a final examination, and two paper assignments. The examinations will have short-answer and analytical questions. The in-class examinations will be on September 26, October 24, and November 28. The final examination will be on the regularly-scheduled exam period for this class time, which is Wednesday, December 12, from 5:30-7:30 pm. Papers are due on October 3 and November 7. You are not allowed to use calculators, PDAs, cell phones, music players, pagers, or any other electronic devices, during examinations.

I have put a list of test questions that I have asked in class before on my web site, www.RandallHolcombe.com. I may use some old questions again, but some questions may be over material I covered in earlier years but not this year, so some questions may not be relevant for this year's course. I put these questions up so you could see the type of questions I ask. If you can answer these questions, you should do well on the exams. I do not discuss the answers to these questions outside of class, and I do not answer questions about the course material on examination days.

If you have any questions about your examination or exam grade, see the graduate assistant about it first. If you are not satisfied after discussing it with him or her, then see me.

Your final grade will be the average of your two papers, your final exam, and your two best scores from the in-class examinations. This allows you to drop your lowest examination grade. You must take the final exam, and it will count in your final average. Each examination and each paper will count 20 percent of your final grade. If you miss an examination for any reason, that will be the one you drop. If you miss more than one examination, your final examination will count more to make up for the missed examinations. There will be no make-up examinations.

Paper Assignments: Your papers should be typed, double-spaced, and about five pages in length. Write your own paper. Do not copy it from another source, but do use references for your background information. I will check about 10 percent of the papers to see if material was copied from the internet or other sources. Copying from any source, including an internet source, is academic dishonesty, but you may quote from an internet source or any other source if you include quotations in quotation marks and cite the source. Your paper should list any references you use, and should attribute quotations and information in your paper to their sources. You must hand in a hard copy of your paper. Electronic submission (such as by e-mail) is not acceptable.

Your first paper topic is social security reform. Most analysts agree that within a few decades the social security program will run out of money. Either taxes will have to be raised or benefits cut to keep the current system viable, or the system could be changed to privatize some or all of the program. Explain why the social security program faces problems ahead and discuss the options for reform. What policies would you recommend to deal with the system's problems? Chapter 16 in your book discusses social security. You may use that as a reference, and you may also use any additional references you wish.

Your second paper topic is the federal budget deficit. At the end of the 1990s the federal budget was in surplus. Now it faces a substantial deficit. What has changed? Why should we be concerned about the deficit? What policies, if any, would you recommend to deal with the deficit? Chapter 15 in your textbook discusses the deficit in some detail. You may use that as a reference, and you may also use any additional references you wish.

Penalty for Late Papers: Papers are due at 6:30 pm on the due date. Any paper handed in after that is late. For each day a paper is handed in late, one letter grade will be deducted from the paper's grade. For purposes of counting late days, every weekday counts as a day, but Saturday and Sunday do not.

Academic Honesty: The papers and examinations you turn in are expected to be entirely your own work. You may discuss the paper topics with your classmates and share information about relevant sources. However, you are expected to get your own sources and write your own papers. You may quote from your sources, but if you do, all quotes should be in quotation marks, and all sources should be listed in the paper. Students are expected to be familiar with the Academic Honor Code, which is discussed in the Student Handbook, and to adhere to it. If you believe the honor code has been violated, please let me know. Our discussions about academic honesty will be kept confidential.

Disabilities: Students with disabilities should register with the Student Disability Resource Center, and provide documentation to me indicating any accommodations needed as a result of the disability.

Course Outline

1. Spontaneous social order.
 - A. Do we take our wealth for granted? Why are we rich?
 - B. Language, money, markets.
 - C. The results of human action but not of human design.
 - D. The problems of coordinating the individual knowledge of everyone in the economy.

Reading assignment: Chapter 1.

2. Economics and prosperity.
 - A. Economics is the study of how we use what we have to get what we want.
 - B. Adam Smith and the division of labor. "The division of labor is limited by the extent of the market."
 - C. David Ricardo and Thomas Robert Malthus: Economics as the dismal science.
 - D. How long has the world economy been growing?
 - E. Capital and labor productivity.

Reading assignment: Chapter 1.

3. Some key concepts for economic thinking.
 - A. People respond to incentives.
 - B. The Production Possibilities Curve and Opportunity cost.
 - C. Gains from trade:
 1. Exchange is a positive sum game.
 2. People earn income from providing benefits to others.
 3. Comparative advantage.
 - D. Compound interest and the "rule of 72."
 - E. How you can get rich. Pay attention to this lecture!

Reading assignment: Chapter 1.

4. Supply and demand.
 - A. How markets determine prices and quantities.
 - B. Market efficiency and the "Invisible Hand."
 - C. Interference with markets.
 - D. Stock market prices and the efficient markets hypothesis.
 - E. Wage determination and the marginal product of labor.
 - F. Karl Marx and the labor theory of value.

Reading assignment: Chapters 2 and 3.

5. Profits guide resources toward activities that increase wealth.
 - A. Profits are a reward for enhancing the wealth of the economy.
 - B. Losses are a penalty for squandering the wealth of the economy.
 - C. Entrepreneurship is the key to economic progress.
 1. The process of entrepreneurial discovery.
 2. The environment conducive to entrepreneurship.
 3. Ludwig von Mises and the socialist calculation debate.

Reading assignment: Chapters 2, 3, 4, 5.

6. Economic efficiency.
 - A. Monopoly.
 1. Barriers to entry and monopoly profits.
 2. Transitional profits and the return to entrepreneurship.
 3. Government-produced barriers to entry.

- B. Other market failures.
 - 1. External benefits
 - 2. Public goods
 - 3. External costs
 - 4. Imperfect insurance markets

Reading assignment: Chapters 4, 5, and 6.

- 7. The role of government.
 - A. Protect individual rights.
 - B. Protect freedom of exchange.
 - C. Protect private property.
 - D. Enforce a rule of law.
 - E. Address problems with markets.
 - 1. Externalities and public goods.
 - 2. Money and monetary policy.
 - 3. Infrastructure and investment.
 - F. The role of government in:
 - 1. Health care.
 - 2. Crime and drugs
 - 3. Education
 - 4. Poverty.

Reading assignment: Chapters 7, 8, 9, 10, and 11.

- 8. Private ownership provides incentives for wealth creation.
 - A. Incentives with private ownership.
 - B. Private versus public property.
 - C. Applications: Endangered species and natural resource conservation.

Reading assignment: No new chapters.

- 9. Economic indicators
 - A. Income indicators like Gross Domestic Product.
 - B. Nominal versus real GDP.
 - C. Price level indicators like the Consumer Price Index
 - D. Government's share of GDP.
 - E. Aggregate supply and aggregate demand.
 - F. Unemployment: the natural rate and deviations from it.

Reading assignment: Chapters 12 and 13.

- 10. Monetary Policy.
 - A. Money and the equation of exchange.
 - B. Real versus nominal prices and interest rates.
 - C. The concept of full employment.
 - D. Short-run and long-run impacts of money.
 - 1. Interest rates.
 - 2. Price level.
 - 3. Real income.
 - 4. Employment.

Reading assignment: Chapter 14.

- 11. Money and banking.
 - A. The Free Banking Era.
 - B. The role of government in the monetary system.
 - 1. The origins of the Federal Reserve System.

2. The role of the Federal Reserve System.
3. Monetary policy and the Great Depression. Milton Friedman's monetarism.

Reading assignment: Chapter 14.

12. Economic policy.

- A. Stability versus fine-tuning. John Maynard Keynes and economic policy.
- B. International trade and trade barriers.
- C. Human and physical capital, and per capita income.
- D. Competition and monopoly.
- E. Public policies toward wealth and poverty.

Reading assignment: Chapters 15, 17, and 18.

Questions you should be able to answer:

1. What causes inflation?
2. What determines the unemployment rate?
3. What caused the Great Depression?
4. How did the use of money originate?
5. What economic policies produce growth?
6. What is the role of profits in an economy?
7. What is the role of entrepreneurship?

Economists you should know:

Adam Smith
David Ricardo
Thomas Robert Malthus
Karl Marx
John Maynard Keynes
Ludwig von Mises
Milton Friedman