

Econ 101: Principles of Economics
Duke University
Spring 2018

Instructor: Dr. Lori Leachman
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Phone: 660-6894
Office and office hours: 329F, SS; M 3-4pm, W 10-11am, 3-4pm

During class I will not be allowing the use of personal technology in the classroom!

If you have a special exception due to learning issues see me directly at the start of term.

Teaching Assistants:

TA: Ming Yi, MY22@duke.edu, office Soc Sci 325A, office hours- Sunday 12-2

TA:

TA/Grader: Ajay Desai, Ajay.Desai@duke.edu, office hour Th 5:30-6:30. HW Help session from 6:30-7:30, Th Jan 18, 25, Feb 8, 22, Mar. 22, Ap. 5, 12, 19.

Text: any Economic Principles text. The syllabus is outlined from Parkin's *Economics 11th ed.*, Pearson/Addison Wesley publishers. For the best price use the peer to peer network or go on Amazon. For whatever book you buy map the topics on the syllabus into the chapters of your book.

The Wall Street Journal

Where Does the Money Go? Bittle and Johnson, 2011 edition, *What We Owe*, by Carlo Cottarelli (both can be ordered on Amazon.com)

Readings listed below that are drawn from outside sources are available on Sakai at [http:// Sakai.duke.edu](http://Sakai.duke.edu).

Course Objective: This course provides an introduction to economics concepts and issues. It will introduce the student to the terminology and methodology of the economist and use the concepts and tools to explore a variety of topics that are of concern to economists and policy makers. Specifically, we will be interested in the relationship between the production function, output and various cost curves, how prices are determined, the incidence of taxation, how the entire economy operates and the role of government in fostering an environment in which prices are stable, unemployment is low and the economy is growing. We will relate these last 3 objectives to the business cycle, macro-policy initiatives and, where appropriate, to various economic models and biases. We will also explore the basis of and benefits from trade and the determination of the exchange rate. The entire course is built around the development and usage of demand and supply analysis in order to address a variety of issues that are important to economists, policy makers and the average citizen. Guiding my development of the course in both structure and content is the over-arching goal of enabling a student who successfully completes the course to be able to read a newspaper and understand the basics of the economic debate and dilemma under discussion. To further this end, this semester you will find video vignettes on the Sakai site listed by topic. In the syllabus

below you will find vignettes that you are responsible for watching and listening to OUTSIDE OF CLASS by the given date. With the class time that is liberated we will do in class applications of material that are related to the topics under study.

Weekly lunches with members of the class will be held on Wednesdays at 11:45 in the West Union Bldg, Faculty Commons. Students may sign up through the Sakai course site under the "Course Meetings." We can accommodate up to 5 students at each lunch. Space is reserved on a first signed up, first served basis. We will meet at the Faculty Commons on the 3rd floor. Duke will cover the cost of your lunch. If you have a conflict with this time and would like to dine with me in an informal way or simply chat for a bit please try flunching me. After I poll the class on the first day I may change the regular lunch to a different day if that is what the class indicates would work better. Our first lunch will be Jan. 18.

Class meets from 1:25-2:40 on MW **and FRIDAY** in Room Soc Sci 139

All exams will be returned outside of class at a designated time and place (typically evenings in rm 327 SS) based on alphabet.

Grading: three regular exams 29% each plus 8% on homework (see below) plus 5% for your total Quiz score for ALL of the video vignettes (sum of all points earned divided by the total points for a % score).

Optional Final-if we **GRADE** the final, we **COUNT** it! I will drop the lowest grade and count the final in its place. You have the option of sitting for the final and not having it graded- you can trash it if you do not think you are doing as well as you need!

If you miss an exam you automatically must take the final as **NO make up exams will be offered!** If you miss more than 1 exam you will take a 0 on the additional exams missed that exceed 1.

Quizzes: on your syllabus you will see under each section that you have some video vignettes listed that **you are responsible for watching outside of class and by the date indicated.** From the start of term until the due date you will be able to access quizzes on each vignette on the Sakai site under tests and quizzes. The first 6 quizzes will close out Friday Jan 26 in order to give those who go through drop add an opportunity to complete them. After that pls check the due dates to make sure you do not miss any. You can take these quizzes as many times as you like and Sakai will automatically take your highest score and send it to the grade book. **Note: on the MC questions there may be more than 1 right answer. Choose all that are correct.** Once you have earned 100% on a quiz if you continue to play around with the quiz and score lower, Sakai will take that score and send it to the grade book (**and I will not change it back!**). Each correct answer in the quizzes is worth 1pt. At the end of term we will take a simple total of points earned and divide it by the total quiz points for a % grade which will be worth 5% of the final grade. There is no makeup option for missed quizzes (except the book report assignment

below) so work ahead if you know you have other commitments around the due date. There are 125 questions and 210 total correct answers.

Homework: The homework is comprised of questions and problem sets designed to illuminate the important concepts being discussed in class and **PREPARE YOU FOR THE EXAM**. The homeworks are due on the due date at the START of class. Once the homework deadline is passed there is NO ability to make up the missed work, so work ahead if you think you have a conflict. For each assignment we will check the work to ensure that you have attempted the assignment- however, we will NOT grade them for correctness. **You will earn 100% for 1% of your final grade for each homework that is turned in completed.** This amounts to 8% of your total grade. I **will not accept** online copies of the HW that you simply print out off the Web, so don't turn them in for credit.

Optional 2 page report (you can do either part for 1 pt each or both for up to the full 3pts) based on *What We Owe* and *Where Does the Money Go?* 2011 ed., **directly** to Dr. Leachman by **Friday, April 6**. For that report you need to cover a number of things outlined below:

- 1- Part 1-1 page (no more- single spaced, min 11pt font) summary of the issues surrounding the presence of debt and deficits as outlined in the first six chapters of *What We Owe*. A complete discussion will include coverage of key thresholds, trends, the role of growth, the impact of inflation, etc
- 2- Part 2-the 2nd page (single spaced, min 11pt font) will focus specifically on the US. For this you will summarize the US fiscal position and use the information in *Where Does the Money Go?*. You will address whether the US has a primary or structural deficit? Why? What are the problems here? How do we solve this issue? Is the current tax change enacted in Dec 2017 going to contribute to the solution or the problem?

You can do either part separately for 1 pt. Each. Or, you can use this assignment to earn up to an additional 3%=3pts added to your final grade or as the make up for a missed HW or quiz If YOU WRITE A SOLID ESSAY AND COVER ALL THE NECESSARY POINTS. It will be my call whether you have earned 2 or 3 pts if you choose to do both.

Ajay Desai is the HW grader and will be conducting regular homework help sessions-the schedule can be found on the front page of this syllabus. Location TBA.

The Graduate TAs will be scheduling out of class reviews of the graded exams. Those dates will be posted as we get the exams graded.

Students who are found to be cheating or facilitating cheating are in violation of the Duke Honor Code and will automatically fail the course.

Course Outline (11th edition, Parkin *Economics*)

Wed Jan 10- course info and rules

1.) Introduction; Chapter 1 and appendix; F,W Jan 12, 17

What is Economics? The issue of scarcity and choice
Economic thinking: efficiency, rationality, opportunity costs, marginal decisions
Macroeconomics vrs microeconomics; relevant components
Information, risk and leverage (Chapt.20 optional)
Self Interest vrs Social interests
Appendix to Ch. 1- graphing, not optional

Video Vignettes:

#1- Market Structures- 19.31 mins- F Jan 26

#6- Economic Assumptions- 12.02 mins- F Jan 26

#3- Economic Philosophies- 12.54mins- F Jan 26

Class Discussion # 1 – Economic Philosophies, Risk and Uncertainty; property rights, F Jan 19

HW 1 due F Jan 19

2.) Chapters 3, 6 (pp127-132) MW Jan 22, 24

Demand, law of demand
Supply, law of supply
Equilibrium- adjustment to and changes in
Price ceilings and floors (Chapt. 6)

- “In Hard Times Spam makes a Comeback” TimesDigest 11/15/08
- What Price is Right?
- Don’t Like the Price, Wait a Minute

Videos:

#13-Demand Curve, Law of Demand- 7:58mins- F Jan 26

#16- Supply, Law of Supply- 3:27mins- F Jan 26

#19-Price Ceilings and Floors- 15:37mins- F Jan 26

HW 2 due F Jan 26

3.) Chapters 10 & 11; FMW Jan 26, 29, 31

Organization of the firm, stocks vrs bonds
Economic vrs. Accounting profit.
The production function
Total product curve
Marginal product and average product
The Law of Diminishing Returns
Relationship between output and cost
Total cost, marginal cost, average cost
Longrun vrs shortrun cost
Labor Demand (Chapter 18)

- The Economic impact of Marijuana Legalization: Colorado
- Factory Fresh (a survey), the Economist, 6/1/16
- The Great Divergence, the Economist 11/12/16

Video:

#7- Accounting vrs. Economic Profit, LR vrs Sr, 12.14 mins – M Jan 29

4.) Chapter 12 & 14; FMW Feb 2, 5, 7

Equilibrium in a perfectly competitive setting
 Comparisons to monopolistic competition
 Role of entry, exit
 Dynamic changes

Oligopoly Market:

- “Rising Beer Prices Hint at Oligopoly” NYT 8/27/09
- “Beer Makers Plan More Price Boosts” WSJ 8/26/09
- “Heineken to Raise Prices, Trim Costs” WSJ 8/27/09
- A Global Antitrust Grilling, WSJ 9/17/15

Video:

#11- Firm and industry Supply- 2.13 mins- M Feb 5

5.) Chapter 18 (pp417-426); F Feb 9

Labor Demand

HW 3 due M Feb 12

Class Discussion #2 - the case of GM and Ford, M Feb 12

EXAM 1- W Feb 14

6.) Chapters 2 (up to pg 40), 21, 22, 26; FMW Feb. 16, 19, 21

The production function (PF)
 inputs vrs outputs
 the production possibilities curve (PPC) and illustrations of opportunity costs
 marginal decisions
 specialization
 efficiency
 goals of government, measurement and their relation to the PPC and the business cycle; full employment, price stability, economic growth, optimal external balance
 GDP Accounting

- *Unregulated, Untaxed, Unloved*, the Economist, 10/15/16

7.) Chapter 4, 6 (pp133-141); F Feb 23

price elasticity

cross price elasticity

income elasticity

tax incidence (Chapt 6)

theories of taxation/tax structure

- “You Picked the Price, but who Gained? NYT
- “San Francisco: the Butts Stop Here”
- How Progressive is the U.S. Federal Tax System? A Historical and International Perspective, J. of Economic Perspectives, Winter 2007
- Tax Revenue? It’s a Roll of the Dice, NTY July 16, 06
- Colorado Expects to Reap Tax Bonanza..., NYT 2/20/14
- Swaying the Debate on How We Pay Taxes, NYT 11/24/15

Videos:

#22- Principles of Taxation- 14:16mins- F Feb 23

Class discussion # 3- GDP mismeasurement, etc , M Feb 26

HW 4 due M Feb 26

8.) Chapter 26; note that the exchange rate analysis used in the text is E/qty of home currency while I will be teaching exchange rate analysis with e/qty of foreign currency. W Feb 28,, MWF Mar 5, 7, 9

Exchange Rate Theory

Fixed vrs. Floating exchange rate regimes

Purchasing Power Parity

Interest Rate Parity

Unholy Trinity of Exchange Rate Systems

Balance of Payments Crisis

Application to China

- *Two Out of Three Ain't Bad*, the Economist 8/27/16
- *The Mighty Dollar*, the Economist, 12/3/16
- *A Harder Call*, the Economist 12/3/16

Videos:

#25- Balance Sheet of the Fed- 4:09mins- F Mar 2

Discussion #4: Elliot Wolf- valuation, theory of the firm, LR vrs. SR, fixed vrs variable inputs/costs **Friday Mar 2.** Elliot is a Duke Alum who majored in stat, got a law degree from Stanford and now works for Logistics.

9.) Chapter 2, pp 40-43, 7 to pg 164; MW Mar 19, 21

Trade Theory- absolute vrs. Comparative advantage

Autarkic prices

Patterns of trade

Range of terms of trade

Importance of being unimportant
Tariffs and quotas (if time allows)

- *The Piecemaker*, the Economist, 11/12/16
- *The Dragon and the Eagle*- a survey, the Economist, Oct. 2004
- *Why Trade*, nobelprize.org
- *Wage War*, the Economist 8/27/16
- *Free Exchange: the problematic proposal*, the Economist, 8/13/16
- *The Oil Effect*, the Economist 11/29/16

Videos:

#37- Trade Mercantilism- 5:21mins- M Mar 19

HW 5 due F Mar 23

10.) Chapter 27; FM Mar 23, 26

AD/AS model- the Classical model

AS – Classical, Keynesian and Intermediate range or LR and SR AS/AD

AD – wealth, interest rate and foreign price effects

Equilibrium

Classical vrs Keynesian debate and relationship to AS/AD

Assumptions and implications of each

Videos:

#43- Business Cycle, Goals of government, Discretionary Policy-12:21mins- M Mar 26

11.) Chapter 29, M Mar 26

The Business cycle

Relationship of BC to AS/AD equilibrium

Economic Goals- full employment, price stability, economic growth, optimal external balance

Real Business Cycle Theory

Supply Side Economics

Stagflation, cost push and demand pull inflation

- Economic Ups and Downs..., Tregarthen

Videos:

#45- Demand Pull and Cost Push Inflation/ Stagflation- 5.32mins- M Mar 26

Discussion #5– Exchange Rate, Venezuela, Argentina, Greece- W Mar 28

EXAM 2- F Mar 30 (many students feel the exchange rate material is the hardest material in the course).

Book Report –What We Owe & Where Does the Money Go?- due Friday April 6

12.) Chapters 25, 24 & 31; MW Ap 2, 4

the nature of money (chapt 25)- is the Bitcoin money?

Bonds pricing and interest rates.

Investment demand

Bond pricing and interest rates

Money creation

The Federal Reserve (chapt 31)

Tools of monetary policy and implementation (chapt 31)

The loanable funds market (Chapt 24)

Money demand and supply

- Negative Creep, the Economist, 2/6/16
- The Cashless Society Meets the Loose-Change Economy, NYT, 4/2/14
- Checks are Expendable, but in legal Tender We Trust, NYT, 4/2/14
- To Instill Love of Bitcoin, Backers Works to Make It Safe, NYT, 4/2/14;
IRS Says that Bitcoin is Property...NTY
- Tap to Pay (Not so much in the US), NYT, 4/2/14

Videos:

#47- The Functions of money, monetary systems- 5:33mins- M Ap. 2

#48- Federal Reserve Functions- 9:17mins- M Ap. 2

#51- Fractional Reserves- 6:58min- W Ap 4

#55-Summary Tools of the Fed, FF rate, QE- 10:19min- W Ap 4

#49- Banks, Thrifts, S&L Crisis, DRMCA1980-19:44min- W Ap. 4

#78- Liquidity Preference- F Ap 6

HW 6 due F April 6

13.) Chapters 28,30; F Ap 6, MW Ap 9, 11

Total spending- the Keynesian framework

The consumption function

Multipliers

Fiscal Policy tools (chapt 30)

Taxation

Keynesian Equilibriums

Crowding In and Crowding Out

Derivation of Aggregate Demand

- Fiscal Multipliers- Where does the buck stop, The Economist, 8/13/16

Videos:

#63- Adjustment when in Disequilibrium – 4:25min- M Ap 9

#61 - Keynesian Cross with Lump Sum taxes- 9:38min- M Ap. 9

#62- Mathematics of Manipulation to Achieve Target...- 13:24min- W Ap 11

14.) Chapters 29 pp 711-712, 30 & 31; FM April 13, 16

Aggregate supply

Monetary vrs fiscal policy

Classical vrs Keynesian debate

Short run vrs. long run equilibriums

- Keynes and the Classical Economists: the early debate on policy activism.

HW 7 due W Ap 18

Discussion #6 - the Deficit, the Debt, entitlements, you fix the budget/Where does the Money Go? –W April 18- depending on our coverage of material we may jettison this because we have a speaker coming on April 16

April 16- Zachary Abrams-Duke alum. Coin Base, Bitcoin, the nature and future of virtual money. Zach graduated in 2007- Coin Base is the 4th startup he has participated in after starting his career in investment banking.

EXAM 3- F April 20

15.) Chapter 23 and lecture; MW April 23, 25

Growth and development

The Solow growth model (lecture)

Macro-policy and growth

Trade and growth

- Allocation, Distribution and Scale; towards an economics that is efficient, just and sustainable. H. Daly, *Ecological Economics*, 1992.
- Birth Rates as Growth Engines, WSJ 4/15/13

HW 8 due W Apr 25

Wed Apr 25 last day of class

FINAL (optional) – see examschedule