

## **Economics 110: Introduction to Microeconomics Fall 2007**

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Office hours:  
Tuesdays 1:30 - 2:30 pm  
Wednesdays 10:30 am - 12:30 pm  
and by appointment

**Course description:** This course provides an introduction to basic principles and methods of microeconomics, and also provides a forum for discussion of current microeconomics-oriented policy issues. The economist John Maynard Keynes wrote that “the ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood.” The goal of Economics 110 is to teach you some economic ideas and help you understand why they can be so powerful. Economics is not primarily a set of answers, but rather a method of reasoning. By the end of the semester, you should be able to use the analysis practiced in the course to form your own judgments about the major economic problems faced by the United States and other countries.

The course focuses on microeconomics, which studies the interaction of people and firms in markets. We will learn about supply and demand, and analyze how government interventions in the market — such as rent control laws, minimum wage laws and the imposition of taxes — affect markets. We will apply the tools we learn to better understand issues such as poverty and labor market discrimination, the environment, international trade, and monopoly and strategic behavior.

**Course materials:** The primary text for the course is N. Gregory Mankiw, *Principles of Microeconomics* (4<sup>th</sup> edition), which is available from the book store. Earlier editions of the textbook can also be used. Students should also pick up a copy of the Econ 110 course packet from Seeley House, first floor.

The readings in the course packet include relevant articles from newspapers, magazines and books. Some of the readings (especially the longer ones) contain material about substantive economic issues. Much of the material complements topics covered in class, but some of the material is entirely new. Other articles (typically the shorter newspaper or magazine articles) are meant to give you a chance to apply the economic ideas and methods you’re learning in class to real world problems.

All of the readings represent testable material (whether or not we discussed them in class), and exams usually include at least one question based on readings from the course packet. What is important is that you understand the arguments, the obviously relevant facts, and that you can use the economic tools taught in class to understand and analyze the issues.

I also recommend that you read the *Wall Street Journal* or *The New York Times* regularly. This reading will allow you to apply what you learn in class to current economic issues, and we will devote class time throughout the semester to discussing these issues.

**Course meetings:** We will meet twice a week, on Mondays and Thursdays. In addition, your TA will schedule weekly office hours that you should use to discuss problem sets, answer questions you may have, and review the week's work.

**Course requirements:**

Your course grade will be determined according to the following formula:

Problem sets	10%
Policy memos (2)	10%
First midterm exam (Thursday, October 11)	20%
Second midterm exam (Thursday, November 8)	20%
Final exam	40%

**Problem sets:** Eight problem sets will be due during the semester, on the dates listed on the following page. Complete problem sets must be turned in at the beginning of class on the due date. *Late problem sets will not be accepted under any circumstances.* To accommodate illness and unforeseen conflicts, I will drop the lowest two scores among your problem sets in the grade calculation.

I encourage you to work in groups on the problem sets. However, if you work out an answer as part of a study group, be sure you understand exactly how to arrive at the answer. Once you have worked out an answer, you are responsible for writing up the problem set on your own. To be explicit about this: it is a violation of the Honor Code to copy another student's problem set. The problem sets will be graded by your TA on a check, check plus, check minus scale. Although the problem sets count for only 10% of your grade, completing and understanding them will be crucial to your success on the exams.

**Policy memos:** Policy memos are short (2 page) writing assignments designed to get you thinking critically about a policy issue, and to give you practice at concise analytical writing. The paper will consist of arguing for or against a specific policy, drawing on arguments and evidence presented in class, in the reading packet, and in the textbook. We will have a discussion of the issue addressed in the policy memo on the day you hand in the memos. You are welcome to discuss the policy memos with your classmates, but you must research and write them on your own. You are encouraged to utilize help from the writing tutors. Four memo topics be given in class, of which you will choose two to write on. *You must write one of the first two memos and one of the second two memos.*

**Examination policies:** There will be two midterm exams and a scheduled final exam. The two midterm exams will be held in class on the days indicated. I will hold an optional review session before each exam. In general, the exams will contain analytical or graphical problems -- like those you will practice doing in the problem sets -- as well as more conceptual questions. In addition, the final exam will likely include a limited number of multiple choice questions.

The examinations will cover material from lectures, the textbook and the reading packet. Most of the assigned reading in the text reinforces material you will learn in class, but some of the reading covers additional topics that will not be discussed in class. Students are responsible for

this material.

*To reward improvement, if your final exam grade is higher than either of your midterm grades, the weight on your lowest midterm will be reduced to 15% and the weight on the final will be increased to 45%.*

**Attendance and class participation:** Although these do not formally contribute to your grade, they will be taken into account in determining 'borderline' grades: borderline grades may be affected (up or down) by attendance and class participation. Also note that the examinations will emphasize the material covered in lecture, and that students may be able to earn extra credit toward the exams by participating in classroom games conducted during class. Students who do not attend class on the day of the game will not receive this extra credit.

<b>PROBLEM SET SCHEDULE</b>		
Problem set #	Date distributed:	Date due:
1	Thursday Sept. 13	Thursday Sept. 20
2	Thursday Sept. 20	Thursday Sept. 27
3	Thursday Sept. 27	Thursday Oct. 4
4	Thursday, Oct. 11	Thursday, Oct. 18
5	Thursday, Oct. 18	Thursday, Oct. 25
6	Thursday, Oct. 25	Thursday, Nov. 1
7	Thursday, Nov. 8	Thursday, Nov. 15
8	Monday, Nov. 19	Thursday, Dec. 6

<b>POLICY MEMO SCHEDULE</b>			
(choose ONE of policy memo 1 or 2 and ONE of policy memo 3 or 4)			
Policy memo	Topic:	Date distributed:	Date due:
1	Pollution control policy	Monday Oct. 15	Monday Oct. 22
2	International trade	Monday Oct. 22	Monday Oct. 29
3	Raising the minimum wage	Monday Nov. 12	Monday Nov. 19
4	Collusion in higher education	Monday Nov. 26	Monday Dec. 3

## I. INTRODUCTION TO ECONOMICS

### Why study economics? (Thursday, Sept. 6)

Mankiw, Ch. 1 and 2

“The Second Coming of Adam Smith,” excerpt, Todd Buchholz, *New Ideas from Dead Economists*, 1989

“A Roving Eye,” *The Economist*, October 28, 2000

“Introduction: The Hidden Side of Everything,” Steven D. Levitt and Stephen J. Dubner, *Freakonomics: A Rogue Economist Explores the Hidden Side of Everything* (HarverCollins: 2006)

## II. SUPPLY AND DEMAND

### 1. Supply, demand and comparative statics (Monday, Sept. 10)

Mankiw, Ch. 4

“Strike a Pose, Count Your Pennies,” Rachel Dodes, *Wall Street Journal*, Feb. 3, 2007

“Jags the Border Collie Gets His Chance to Be a Bomb-Sniffer Dog,” Joseph Pereira, *Wall Street Journal*, February 5, 2002

“Rising Lipstick Sales May Mean Pouting Economy,” Emily Nelson, *Wall Street Journal*, November 26, 2001

“Less Marijuana, More Alcohol?” *New York Times*, June 17, 1992

### 2. Elasticity and government intervention (Thurs., Sept. 13; Monday, Sept. 17)

Mankiw, Ch. 5 and 6

“Scrap Scalping Laws,” Jeff Jacoby, *Boston Globe*, August 8, 2007

“Why the Tepid Response to Higher Gasoline Prices?” Alan B. Krueger, *New York Times*, Oct. 13, 2005

“Some Rich and Famous of New York City Bask in Shelter of Rent Law,” *Wall Street Journal*, March 21, 1994

“Unstable and Out of Control,” Marian L. Sachs, *New York Times*, January 13, 2004

### 3. Consumer choice: marginal analysis and income and substitution effects (Thurs., Sept. 20; Monday, Sept. 24)

Mankiw, Ch. 21

“Cutting Waste Can Be a Waste,” *New York Times*, September 21, 1997

“The Opportunity Cost of Economics Education,” Robert H. Frank, *New York Times*, Sept. 1, 2005

### III. WELFARE ECONOMICS

1. Consumer surplus, producer surplus and market efficiency (Thurs., Sept. 27)

Mankiw, Ch. 7

“The Power of the Market,” from Milton and Rose Friedman, *Free to Choose*, 1980

“Silicon Mali,” Silvia Sansoni, *Forbes*, February 4, 2002

2. Welfare analysis of government policies (Monday, Oct. 1)

Mankiw, Ch. 8 and Ch. 12

“Sticky Situation,” Daniel Fisher, *Forbes*, May 14, 2001

“How an Addiction to Sugar Subsidies Hurts Development,” Roger Thurow and Geoff Winestock, *Wall Street Journal*, Sept. 16, 2002

“The Debate Over Subsidizing Snacks,” Marian Burros, *New York Times*, July 4, 2007

“Roll-Your-Owns Help Avoid Taxes,” Iver Peterson, *New York Times*, October 14, 2002

3. Externalities (Thursday, Oct. 4; Monday, Oct. 15)

Mankiw, Ch. 10

“Higher Beer Prices Would Reduce Campus Violence,” *NBER Digest*, Sept. 1999

“Clear Skies Are Goal As Pollution Is Turned Into a Commodity,” John J. Fialka, *Wall Street Journal*, October 3, 1997

“Doffing the Cap,” *The Economist*, June 14, 2007

“Carbon-Neutral is Hip, But Is It Green?” Andrew C. Revkin, *New York Times*, April 29, 2007

“Rain Forest Rescue,” Tom Wright, *Wall Street Journal*, Aug. 10, 2007

“It’s Immoral to Buy the Right to Pollute,” Michael J. Sandel, *New York Times*, December 15, 1997

### **FIRST MIDTERM EXAM: THURSDAY, OCTOBER 11**

4. Public goods (Monday, Oct. 15)

Mankiw, Ch. 11

“The Role of Government in a Free Society,” from *Capitalism and Freedom*, Milton Friedman, 1962

“The Lost Fig Leaf: Why the Conservative Revolution Failed,” Paul Krugman, *Slate*, September 27, 1996

5. Trade and tariffs (Thurs., Oct. 18; Monday, Oct. 22)

Mankiw, Ch. 3 and 9

“What Do Undergrads Need to Know About Trade?” Paul R. Krugman,  
*AEA Papers and Proceedings*, May 1993

“The Great Unbundling,” *The Economist*, January 18, 2007

“Federal Aid Does Little for Free Trade’s Losers,” Deborah Solomon,  
*Wall Street Journal*, March 1, 2007

“In Praise of Cheap Labor,” Paul R. Krugman, *Slate*, March 20, 1997

“Free Trade Accord at Age 10: The Growing Pains Are Clear,” *New York Times*, December 27, 2003

IV. FACTOR MARKETS

1. Labor demand and supply (Thursday, Oct. 25)

Mankiw, Ch. 18

“How to Make the Poor Poorer,” Gary S. Becker and Richard A. Posner,  
*Wall Street Journal*, January 26, 2007

“Much Ado About \$6.15,” Paul Glastris, *U.S. News & World Report*,  
May 1, 1998

“What’s a Minimum Wage Job Worth?” *Wall Street Journal*, April 1,  
1996

“A Blunt Instrument,” *The Economist*, October 28, 2006

2. Poverty, inequality and discrimination (Monday, Oct. 29)

Mankiw, Ch. 19 and 20

“The Rich, the Poor and the Growing Gap Between Them,” *The Economist*, June 17, 2006

“Why Do Drug Dealers Still Live with Their Moms?” in Steven D. Levitt  
and Stephen J. Dubner, *Freakonomics: A Rogue Economist Explores the Hidden Side of Everything* (HarverCollins: 2006)

“Out of Sight Keeps Women In Mind for U.S. Orchestra Spots,” Christina  
Duff, *Wall Street Journal*, March 7, 1997

“Sticks and Stones,” Alan B. Krueger, *New York Times*, December 12,  
2002

V. FIRM BEHAVIOR

1. Perfect competition (Thursday, Nov. 1; Monday, Nov. 5)

Mankiw, Ch. 13

“The Spice of Life In Britain Today Is Curry Powder,” Gautam Naik, *Wall Street Journal*, September 17, 1998

“Cracking the Genetic Code: Competition Was the Catalyst,” Gary S. Becker, *Business Week*, August 14, 2000

“Dogfight With a Difference,” Joe Barrett, *Wall Street Journal*, April 29, 2003

“Bubble-lusions,” Austan Goolsbee, *Slate*, August 26, 2005

2. Cost curves and output decisions in the short run and long run (Monday, Nov. 5; Monday, Nov. 12)

Mankiw, Ch. 14

## SECOND MIDTERM EXAM: THURSDAY, NOVEMBER 8

3. Monopoly (Thursday, Nov. 15; Monday, Nov. 19)

Mankiw, Ch. 15

“The New Diamond Hunters,” Patrick Barta, *Wall Street Journal*, May 12, 2007

“The Best Little Monopoly in America,” Robert J. Barro, *Business Week*, December 9, 2002

“The Barry Bonds Tax: Teams Raise Prices for Good Games,” Stefan Fatsis, *Wall Street Journal*, December 3, 2002

“Seeking Perfect Prices, CEO Tears Up the Rules,” Timothy Aepfel, *Wall Street Journal*, March 27, 2007

4. Oligopoly and strategic interaction (Monday, Nov. 26; Thursday, Nov. 29)

Mankiw, Ch. 16

“Silent Orchestration,” *The Economist*, March 29, 2007

“The New Economics of Higher Education,” Peter Passell, *New York Times*, April 22, 1997

“Do Colleges Collude on Financial Aid?” *Wall Street Journal*, May 2, 1989

“College Financial Aid and Antitrust Action,” *The NBER Digest*, November 2000

“The Intense Competition for Top Students Is Threatening Financial Aid Based on Need,” Robert H. Frank, *New York Times*, April 14, 2005

5. Economics of information and uncertainty (Thurs., Nov. 29; Monday, Dec. 3)

Mankiw, Ch. 22

“The Best Care Other People’s Money Can Buy,” James P. Weaver, *Wall Street Journal*

“It’s Not Your Grandpa’s Moral Hazard Anymore,” Austan Goolsbee, *Slate*, December 8, 2005

“The Lemon Dilemma,” *The Economist*,” October 13, 2001

“Pensions by Default,” *The Economist*, August 25, 2005

Thursday, Dec. 6: Catch-up