Government/Economics 367

Money, Markets and Economic Policy

Fall, 2019

Mondays and Wednesdays: 1:30-2:45

Buchanan Hall D-023

Professor Steven Pearlstein, Robinson Professor of Public Affairs

Office: East 207-C

Phone: 703-993-2165 / E-mail: spearls2@gmu.edu

Robinson Professors Coordinator: Sharon Wood 703-993-2171 (swood8@gmu.edu)

Office Hours: Mon, 3:00-4:15; Tues. 1:45-3:00, or by appointment

Teaching Assistant: Abraham Song (ksong7@gmu.edu) (tentative)

COURSE DESCRIPTION: This course introduces basic economic concepts and principles by applying them to the fundamental issues facing the U.S. and global economies. We will explore the way markets work, the reasons they sometimes fail and the role of government policy in dealing with those failures. Topics include productivity and economic growth, recessions and inflation, the role of large and small businesses, taxes, health care, globalization, income distribution and financial crises, with an emphasis on market structure, social institutions and the not-always rational behavior of investors and consumers.

The course is aimed at non-economics majors seeking the economic literacy necessary to do their jobs, manage their lives, understand recent events and participate intelligently as citizens in a democracy. Economics majors looking for a less theoretical and less ideological approach may also find this course useful and engaging. The aspiration of the course is to demystify economics and translate it into conversational English. There will be very little math involved. The only
prerequisites are a curious mind, an aptitude for critical thinking and a willingness to attend class and do the generous amount of assigned reading.

A companion course, Govt. 368, is offered in the spring and introduces the tools and quantitative methods used by economists to apply and analyze the principles introduced in this course.

CLASS SESSIONS: The course is organized around 14 fundamental questions about economics that are relevant today. Generally, each question will be addressed during two class sessions. The first of the two sessions will focus on an explanation of the basic economic principles and concepts that are necessary to consider the question. The second session will be focused more on possible answers to the question using those principles and concepts.

Students will be expected to attend all classes having done the reading for the day. Although much of the course is in lecture format, there will be structured class discussions at various points during each class session. Even shy students may be called on randomly to participate.

Students should pick up tent cards with their names on them at the beginning of class and return them at the end of class.

For each class, one student will be assigned the task of taking notes that can be used by others attending the session as well as those who are absent. Notes should be submitted electronically the same day to Mr. Wong for posting on Blackboard. It is important for fellow students that the notes be done well. They will be posted prior to the next class session along with any power points, charts, graphs and video links used during the lectures. If you cannot attend class on the day of your assigned note taking, arrange a swap and let Mr. Wong know of the change. The note-taking assignments will be posted on Blackboard.
COURSE EVALUATION:

There will be an in-class midterm exam and a final exam. Both will require familiarity with readings and material covered in class, along with ability to apply economic concepts and reasoning in short essay answers. You may bring the equivalent of up to 5 (one-sided, double-spaced) pages of typed notes to the mid-term, and 10 pages to the final exam. You will need to bring a blue book to both the midterm and final.

**There will also be a short quiz each week at the beginning of one of the class sessions.** The quizzes will be easy if you have done the reading and digested it, but not so much if you haven’t. The two worst quiz scores (including any missed quizzes) will be dropped in calculating grades.

<table>
<thead>
<tr>
<th></th>
<th>20%</th>
<th>100 points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quizzes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Class Participation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Midterm</td>
<td>25%</td>
<td>125 points</td>
</tr>
<tr>
<td>Final</td>
<td>35%</td>
<td>175 points</td>
</tr>
</tbody>
</table>

BOOKS AND COURSE MATERIALS:

**Warning:** The reading load for this course is heavier than for most Mason courses. The tradeoff (a word you will be hearing a lot in this course) is that there are no papers.

The textbook for the course is a free on-line textbook developed specifically for non-economics majors interested in public policy. It can be found at core-econ.org, and is simply called *The Economy*. You can also buy a hard copy of the book at the Core-econ website if you prefer.

Because this isn’t a textbook-driven course, the chapters in the textbook don’t correspond to the organization of the syllabus. As a result, we will be jumping around the textbook quite a bit. Although I have tried to
avoid it, there will be times when the textbook gets overly focused on more on complicated supply-demand graphs and equations. Don’t get hung up on these – if you find them too difficult, just skip over them.

When reading the textbook online, you should take the time to explore the interactive charts and graphs, read the sidebars about famous economists, watch the videos and test your understanding with the brief quiz questions (the software will tell you immediately whether you are right or wrong, and why). Unless you are an economics major or like such things, don’t bother, however, with the “Exercises” and what are called the “Einsteins” and “Leibnizes” – they are too mathematical for our purposes.

In addition to the textbook, there are three other books that are part of the required reading, all of which are available at the GMU bookstore and from on-line sellers:

**The Undercover Economist**, by Tim Harford, (Random House, paperback). This is a breezy, popular book on economics that deals with many of the topics covered in the course.

**The Globalization Paradox: Democracy and the Future of the World Economy**, by Dani Rodrik, (W.W. Norton, paperback). This is an easy-to-understand economic and political critique of globalization by a respected academic economist.

**Predictably Irrational: The Hidden Forces That Shape Our Decisions**, by Dan Ariely (revised and extended, Harper Perrenial, paperback). This popular book offers a fun and accessible introduction to behavioral economics by one of its best-known practitioners.

Some weeks, the assigned reading will also include articles and reports that can either be found online or through e-reserve, which can be accessed through Blackboard (click on Course Content in left hand menu). These shorter readings are not optional or supplementary; they are as integral to the course—and to your grade—as the books. Really.
Aug. 26 (M)  Introduction and Overview: Why Study Economics?
Tradeoffs, scarcity, opportunity cost, cost-benefit, sunk costs, marginal thinking
Undercover Economist, Ch. 1 (e-reserve)

Aug 28 (W)  Why Are Some Nations Rich and Others Poor?
Productivity, exchange and specialization, comparative advantage, natural endowments, Malthusian trap, industrial revolution, savings and investment, technological progress, human capital, rule of law, role of institutions, inclusive v. extractive economic systems
The Economy  Unit 1
Adam Smith, Wealth of Nations, Ch. 1 (e-reserve or online at ibiblio.org)
Undercover Economist, Ch. 8

Sept. 2 (M)  No Class – Labor Day

Sept. 4 (W)  Rich/Poor continued
The Economy  Units 2.0-2.1 / 2.6-2.10 / 16.0-16.1
Why Nations Fail, Aaron Acemoglu and James Robinson, Ch. 7 (e-reserve)
Sept. 9 (M)  **Why Are Free Markets the Best Way to Organize Economic Activity?**

Supply and demand, reservation price, consumer and producer surplus, complements and substitutes, Pareto equilibrium, shifting supply/demand curves, “invisible hand,” price controls, failure of communism

The Economy  Unit 8 (except 8.7)

Sept. 11 (W)  The Economy  Unit 12.8

Undercover Economist, Ch. 3 and 10

Sept. 16 (M)  **Why Do Markets Sometimes Fail To Maximize Welfare?**

Positive and negative externalities, asymmetric information, public and common goods, rival and excludable goods, free riders, tragedy of the commons, Coase theorem, prisoner’s dilemma, positional arms races, game theory, Nash equilibrium

The Economy  Units 12.0-12.6

Undercover Economist, Ch. 4

Sept. 18 (W)  The Economy  Unit 4.0-4.7

Sept. 23 (M)  **Why Is There Inflation and Deflation?**

Medium of exchange, inflation, deflation, real wages and interest rates, monetary policy, money supply, the Federal Reserve, fractional banking

The Economy  Units 13.8, 15.0-15.7

Sept. 30 (M)  Why Are There Recessions and Depressions?
Fiscal policy, unemployment, aggregate supply/demand, sticky wages and prices, paradox of thrift, liquidity trap, vicious/virtuous cycles, Keynes v. Hayek
The Economy  Units 13.0-13.7 /14.6 /17.0-17.3

Oct. 2 (W)  Do Big Companies or Small Ones Drive Economic Innovation, Growth and Job Creation?
Perfect and imperfect competition, fixed and variable costs, economies and diseconomies of scale, average v. marginal costs and revenue, elasticity of demand, oligopoly, natural monopoly, network effects, outsourcing, entrepreneurship, creative destruction
The Economy  Units 6.0-6.3 / 7.0-7.3

Oct. 7 (M)  The Economy  Units 7.8-7.10 / 21.0 - 21.4

Oct. 9 (W)  No Class – Jewish Holiday

Oct. 14 (M)  Columbus Day Shuffle  - Class moved to Tuesday

Oct. 15 (T)  Review Session for Midterm Exam

Oct. 16 (W)  Midterm Exam - Bring Blue Book
Oct. 21 (M)  **Do Taxes Reduce Growth and Employment?**
Overall tax burden; income, sales, corporate, and payroll taxes; marginal v effective tax rates; tax progressivity, incidence, neutrality, efficiency; income effect v. substitution effect; capital gains; reading an income statement

The Economy  Unit 8.7
Joel Slemrod, “The Truth About Taxes and Economic Growth,” Challenge, Jan-Feb., 2003 (online, e-reserve)

Oct. 23 (W)  **Mark Mazerov, “Kansas Provides Compelling Evidence of Failure of Supply Side Tax Cuts,” Center for Budget and Policy Priorities, Jan. 22, 2018 (online, e-reserve)**

Oct. 28 (M)  **Is Globalization Good for America?**
Gains from specialization and trade, trade balance, capital flows, exchange rates, competitiveness, immigration, tariffs, industrial policy, mercantilism, offshore outsourcing

The Economy  Unit 18
Undercover Economist, Ch. 9

Oct. 30 (W)  **Globalization Paradox: Intro plus Ch. 1-3**
Nov. 4 (M)  **Why Does the Price of Health Care Rise Faster Than the Price of Everything Else**

Moral hazard, agent-principal problem, asymmetric information, risk pool, adverse selection, individual mandate, community rating, fee-for-service, managed care and capitation, malpractice and defensive medicine, outcomes research

Undercover Economist, Ch. 5

David Leonhardt in New York Times (e-reserve)

“Forget Who Pays”, July 26, 2009

“A System Breeding More Waste,” Sept., 2009

“Dr. James Will Make It Better,” Nov. 8, 2009

Nov. 6 (W)  Atul Gawande, “Cost Conundrum,” The New Yorker, June 1, 2009 (e-reserve and online)


Nov. 11 (M)  **Why Do We Keep Having Financial Crises?**

Financial intermediation, savings, investment, herd behavior, bank runs, stock and bond markets, random walk, leverage, deposit insurance, liquidity crisis v. credit crisis, securitization, shadow banking system, derivatives, regulatory capture

The Economy  Unit 11.5-11.8

Undercover Economist, Ch. 6
Nov. 13 (W)  The Economy  Unit 17.8-17.12

Nov. 18 (M)  **Why Have Incomes Become So Unequal?**
Labor market, marginal productivity, efficiency wages, income inequality before and after taxes/transfers, class mobility, impacts of immigration, trade, technology, norms of behavior, unions minimum wage, superstar labor markets, education premium

The Economy  Units 19 (except 19.6, 19.7)

Unit 9.10 (unions)

Nov. 20 (W)  “For Richer, For Poorer,” Special Report by The Economist magazine, Oct 13, 2102, **all 12 parts** (e-reserve)

Scott Winship, “Overstating the Costs of Inequality,” National Affairs, Spring, 2013 (e-reserve and online)

Nov. 25 (M)  **Why Doesn’t the Airplane Passenger Sitting Next To You Pay the Same Fare?**
Price discrimination, rule of one price, bundling, tying

Undercover Economist, Ch. 2

Nov. 27 (W)  No Class – Thanksgiving Break
Dec. 2 (M)  

**Are People Rational In Their Economic Behavior?**

Behavioral economics, fairness and the ultimatum game, endowment effect, anchoring, status quo bias, loss aversion, mental accounting, framing, bounded rationality

The Economy  Unit 4.8-4.12

Predictably Irrational, Ch. 1-4, 8,10,12

Dec. 4 (W)  

**If Economics is a Science, Why Do Economists Disagree About So Much?**

Neo-classical economics, Keynesian and New Keynesian economics, rational expectations, public choice, economic modeling, complexity, mathematization of economics

Dani Rodrik, “Economics: Science, Craft or Snake Oil?” Institute for Advanced Studies, 2013 (e-reserve and online)

Frederich von Hayek, “The Pretext of Knowledge,” Nobel Prize Lecture, 1974 (e-reserve and online)

Dec. 9 (M)  

**Optional Review Session for Final Exam**

Dec. 11 (W)  

**Final Exam – Bring Blue Book**
**ELECTRONIC DEVICES:** No computer will be allowed in class except by special permission (the designated note taker for each class session may also use a computer). You are encouraged to take notes with pen and paper. All cell phones and communications devices must be shut off during class. If you are caught texting or emailing or surfing the web, you may be asked to leave the class session. Really.

**STUDENTS WITH DISABILITIES:** If you are a student with a disability and you need academic accommodation, please see me and contact the Disability Resource Center at 703-993-2474.

**COMMUNICATION:** All students should check university e-mail accounts for class updates. I will send e-mails through Blackboard.

**ENROLLMENT:** Students are responsible for verifying their enrollment in the class. Last day to drop classes without penalty is Tuesday, Sept. 9. Please let me know if you drop the class at any time.

**THE HONOR CODE POLICY:**

1. No help may be given or received by students when taking quizzes, tests or examinations, whatever the type or wherever taken, unless the instructor specifically permits deviation from this standard.

2. All work submitted to fulfill course requirements is to be solely the product of the individual(s) whose name(s) appear on it. Except with permission of the instructor, no recourse is to be had to projects, papers, lab reports or any other written work previously prepared by another student, and except with permission of the instructor, no paper or work of any type submitted in partial fulfillment of the requirements of another course may be used a second time to satisfy a requirement of any course.