Government/Economics 367
Money, Markets and Economic Policy
Fall, 2020
Mondays and Wednesdays: 1:30-2:45
Buchanan Hall D-023 and Online

Professor Steven Pearlstein, Robinson Professor of Public Affairs
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Office Hours: In person or online: MW 3-4, Tues 10:30-12:30 or by appointment
Teaching Assistant: (Muhammad) Salar Khan, 541-368-8817 / mkhan63@gmu.edu,

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 inequality 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. Government majors will notice the policy focus of the lectures and discussions. 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 appreciation of 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. The textbook will be the same. If you are planning to take Govt. 368, you might consider purchasing the e-textbook and the online learning tool that goes with it, Mindtap.

**HYBRID COURSE STRUCTURE:** To deal with the demands of the coronavirus pandemic, this course will be offered simultaneously in two modes: in person and online. Roughly half of the class (section 001) will attend class in person when the class meets on Mondays, while the rest of the class participates in the course that day remotely through BlackBoard Collaborate, watching the lectures, joining discussions and participating in small group discussions. On Wednesdays, the arrangement is flipped and other half of the class (section 003) will attend in person. Whether participating in person or online, all students will be expected to “attend” all sessions and take quizzes and exams simultaneously online. Students attending in person should bring laptops or tablets to class. Students have been randomly assigned to either the Monday or Wednesday section, and given the space limitations, students may only switch with permission.

Students who cannot attend class in person for serious medical reasons should contact me before the start of the semester. I will make every effort to accommodate those students, but accommodation will probably involve scheduling regular one-on-one sessions with me in person or online.

In-person sessions will continue only until Thanksgiving. There will be two class sessions after Thanksgiving, both of which will be offered exclusively online. Should the pandemic require closing of the campus before Thanksgiving, all students will immediately switch to participating online.

Blackboard Collaborate is easy to use—even I have figured it out. You can access the platform by clicking on the Blackboard Collaborate tab listed as one of the Tools on the left side of the Blackboard home page for the course. The Class Room will open 15 minutes before the start of class and end 15 minutes after. Once you have entered a class or meeting room, it is pretty clear how to turn on your video and audio. You should routinely turn on your video feed so we all can see you but mute your audio unless you are meaning to speak to the class. As a backup, you can also access any of these rooms by telephone for audio access, although this should not be a regular occurrence. The phone number is displayed on the upper right when you first enter the room by computer.

If you do not have access to this course on Blackboard, or if you do not have Internet access or a computer with video capabilities, please contact me immediately.
**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 answering 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 involves a lecture format, there will be class discussions at various points during each lecture. Students may be called on randomly to participate, including those participating online. Feel free to ask questions or make comments anytime during lectures by raising your hand, literally if you are in the room or virtually if you are online.

Students attending in person should bring their name cards to each session with their first names written on them in large block letters. For health reasons, please do not move the desks and chairs, which have been placed to maintain social distancing. Masks are required at all times. Try to wash or sanitize your hands before entering the room. If you need to speak to me or Salar, it may be best to do so outside the building before or after class, or make an appointment to visit me at my office or speak online.

**GROUP DISCUSSIONS:** Generally, once each week students will divide up into permanent groups of seven or eight to think through interesting economic or policy questions for 10-15 minutes. A member of each group will then report its conclusions to the full class. Please let Salar know on the first day of class if there are other students you would like to have in your discussion group. Group assignments will be available on Blackboard after the first class session under the Syllabus tab.

All of these group discussions will be held on-line, whether you are taking the course online or in person on that day, and groups will include a mix of economics and government majors and a mix Monday and Wednesday students online (that’s why in-person students need to bring their computers to class). Before each group discussion, I will post the questions to be considered by the groups in the course module under the Course Content tab on Blackboard.

My expectation is that over time, groups will develop their own esprit de corps and their own personalities. That’s a good thing. You may also find the groups useful for studying together before the midterm and the final. The collective performance of each group will be reflected as part of your individual participation grade. Each group will be assigned a name of an important economist, along with its own meeting room on Blackboard Collaborate which will be available 24-7 for group
members to collaborate. At its first meeting, each group should select someone to moderate its first discussion, with the idea that moderating duties will be passed around as the semester progresses to those willing and able to serve that role.

COURSE EVALUATION:

There will be a midterm exam and a final exam administered to all students online. 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 avail yourself of the equivalent of up to 5 (one-sided, double-spaced) pages of typed notes when taking the mid-term, and 10 pages to the final exam. Referring to any material beyond those notes, or exchanging messages with anyone during the exam, would be a violation of the university’s honor code and carry serious consequences.

There will also be a short quiz each week at the beginning of one of the class sessions. The quizzes have only one purpose: to determine whether you have done the assigned reading and understand it. If you have done the work, quizzes will be easy. If not, you will find them frustrating and think them unfair. The two worst quiz scores (including any missed quizzes) will be dropped in calculating grades.

Final grades will be determined on the basis of 500 points based on the following criteria:

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<tr>
<th>Component</th>
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<tr>
<td>Quizzes</td>
<td>20%</td>
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<tr>
<td>Class Participation/Group Work</td>
<td>20%</td>
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<td>Midterm</td>
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<td>Final</td>
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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 heaviest reading is in the first weeks, so you may want to get a head start on the reading in August. Please note there is reading assigned for the first class session on Aug. 24.

The textbook for the course **Principles of Economics (9th Edition, Cengage) by Gregory Mankiw** a professor at Harvard University and a former chairman of the Council of Economic Advisers in the George W. Bush White House. Note that we are
using the latest edition, the 9th edition, which is available from the GMU bookstore on online sellers, in print or in e-book format.

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. You need not bother with the appendices and problem sets that come at the end of chapters. You should, however, make sure you understand the relevant key concepts listed at the end of the chapter.

Although I have tried to avoid it, there will be times when the textbook reading goes into more detail than is required for this course, or focuses on equations or complicated supply-demand graphs. Don’t get hung up on these – if you find them too difficult, just skip over them. The textbook reading is meant to provide you with an initial introduction to the key economic concepts and principles which will be expanded on during lectures and discussions.

In addition to the textbook, there are three other books that are required reading, all of which are available at the GMU bookstore and from online 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.

**Open: The Progressive Case for Free Trade, Immigration and Global Capital**, by Kimberly Clausing (Harvard University Press, paperback). This is an easy-to-understand defense 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.

Many 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. The reading material for each weekly unit, or module, has been grouped together.). **These shorter readings are not optional or supplementary. They are as integral to the course—and to your grade on quizzes and exams—as the books.**

For one class, your assignment will be to watch a recent and very entertaining movie, *The Big Short*, about the 2008 financial crisis, based on the best-selling book by Michael Lewis.
CLASS SCHEDULE

Aug. 24 (M)  Introduction and Overview: Why Study Economics?
Tradeoffs, scarcity, opportunity cost, cost-benefit, sunk costs, marginal thinking
Principles of Economics, Ch. 1 and 2
Undercover Economist, Ch. 1 (e-reserve)

Aug 26 (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, physical capital, human capital, rule of law, role of institutions, inclusive v. extractive economic systems
Principles of Economics Ch. 3, 23, 25
Undercover Economist, Ch. 8

Aug 31 (M)  Rich/Poor continued
Why Nations Fail, Aaron Acemoglu and James Robinson, Ch. 7 (e-reserve)
White Man’s Burden, William Easterly, Ch. 1 (e-reserve)

Sept. 2 (W)  Why Are Competitive 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
Principles of Economics, Ch 4, 6 (pp. 109-118 only) and 7
Sept. 7 (M)  Labor Day – No Classes

Sept. 9 (W)  Competitive Markets, continued
Undercover Economist, Ch. 3 and 10
Group Discussion: What is Greed?

Sept. 14 (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
Principles of Economics, Ch. 10
Undercover Economist, Ch. 4
Group Discussion: Fixing Airport Congestion

Sept. 16 (W)  Market Failures, Continued
Principles of Economics, Ch. 11
Group Discussion: Is public education a public good?

Sept. 21 (M)  Why Is There Inflation and Deflation?
Medium of exchange, inflation, deflation, real v. nominal wages and interest rates, monetary policy, money supply, the Federal Reserve, federal funds rate, fractional banking, reserve requirement
Principles of Economics, Ch. 24, 29
Ch. 30 (613-619, 622-624, 631-635)
Sept. 23 (W)  Inflation, continued

Principles of Economics  Ch. 35 (pp. 745-749)


Group Discussion: The Fed just printed $4 trillion to buy government and corporate bonds. What will be the long run economic impact?

Sept. 28 (M)  Jewish Holiday – No Class

Sept. 30 (W)  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

Principles of Economics, Ch. 28 (pp. 567-580)

Ch. 33 (pp. 683-689, 705-714)

Ch. 34 (pp. 719-742)

Group Discussion: Should government use tax breaks to subsidize development of new shopping centers?

Oct. 5 (M)  Do Big Companies or Small Ones Drive Economic 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, monopoly and natural monopoly, network effects, automation, outsourcing, entrepreneurship, creative destruction

Principles of Economics, Ch. 13

Ch. 14 (pp. 263-271)
Oct. 7 (W)  Big/Small Companies, continued
Principles of Economics, Ch. 5 (pp. 88-89, 97-98)
  Ch. 15 (pp. 287-302)
  Ch. 17 (pp. 335-340, 347-353)

Group Discussion: Should Amazon be broken up?

Oct. 12 (M)  Columbus Day – No Official Class Session
Optional Review Session for Midterm (Online Only)

Oct. 13 (T)  Columbus Day Shuffle
Midterm Exam (Online Only)

Oct. 14 (W)  Do Taxes Reduce Growth and Employment?
Overall tax burden; income, payroll, sales and corporate taxes;
marginal v effective tax rates; tax progressivity, incidence,
neutrality, efficiency; income effect v. substitution effect;
capital gains; reading an income statement
Principles of Economics, Ch. 12, then Ch. 8
  Ch. 6 (pp. 119-126)
Joel Slemrod, “The Truth About Taxes and Economic
Growth,” Challenge, Jan-Feb., 2003 (online, e-reserve)
Oct. 19 (M) Taxes, continued

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)


Group Discussion: Elizabeth Warren’s wealth tax

Oct. 21 (W) Is Globalization Good for America?

Gains from specialization and trade, trade balance, capital flows, exchange rates, reserve currency competitiveness, tariffs, industrial policy, mercantilism, winners and losers from globalization

Principles of Economics, Ch. 9

Ch 31 (pp. 639-649)

Ch. 32 (pp. 673-680)

Undercover Economist, Ch. 9

Oct. 26 (M) Globalization, continued

Open, Ch. 1,3,4,5,6,8

Globalization Paradox, Dani Rodrik, Chapter 3 (e-reserve)

Student Presentations: Has Globalization Been Good or Bad for My Family or Community?

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, electronic records

Principles of Economics, Ch. 22 (pp. 448-253)

Undercover Economist, Ch. 5

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

Nov. 2 (M)  Health care, continued

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


Group Discussion: How to fix a broken health system?

Nov. 4 (W)  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

Principles of Economics, Ch. 26, 27 (pp. 559-563)

Undercover Economist, Ch. 6
Nov. 9 (M)  
**Financial crises, continued**

“Reading” Assignment: Watch Movie, *The Big Short*

**Group Discussion: Should government bailout banks to save the economy?**

Nov. 11 (W)  
**Why Have Incomes Become So Unequal?**

Labor market; marginal productivity; income inequality before and after taxes/transfers; absolute and relative class mobility; skills biased technical change; education premium; impacts of immigration, trade, technology, norms of behavior, unions, minimum wage; efficiency wages, superstar labor markets.

Principles of Economics, Ch. 18, 19, 20

Nov. 16 (M)  
**Inequality, continued**

“For Richer, For Poorer,” Special Report by The Economist magazine, Oct 13, 2012, all 12 parts (e-reserve)

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

**Group Discussion: What is the optimal amount of income inequality?**

Nov. 18 (W)  
**Are People Rational in Their Economic Behavior?**

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

Principles of Economics, Ch. 22 (pp. 448-464)

Predictably Irrational, Ch. 1-4, 8,10,12
Nov. 23 (M)  
**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)

Nov. 25 (W)  
**Thanksgiving Recess**

Nov 30 (M)  
**Why Doesn’t the Airplane Passenger Sitting Next To You Pay the Same Fare? (Online Only)**  
Price discrimination, rule of one price, bundling, tying  
Principles of Economics, Ch. 15 (pp. 302-307)  
Undercover Economist, Ch. 2  
**Group Discussion: The Price Discrimination Challenge**

Dec. 2 (W)  
**Review Session for Final Exam (Online Only)**

Dec. 9  
**Final Exam (Online)**

**ELECTRONIC DEVICES:** All cell phones and communications devices must be shut off during class, except when being used for group collaborations. If you are caught texting or emailing or surfing the web, you may be asked to leave the class session.

**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.

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.