Government 367
Money, Markets and Economic Policy
Fall, 2017
Mondays and Wednesdays: 1:30-2:45
Mason Hall D-023

Professor Steven Pearlstein, Robinson Professor of Public Affairs
Office: East 207-C
Phone: 703-993-2165
E-mail: spears2@gmu.edu

Robinson Professors Coordinator: Denise Napoliello 703-993-2171
Office Hours: Mon, 3:00-4:15; Tues. 2:00-4:00, or by appointment

Teaching Assistant: Andrew Armstrong. Email: aarmstr8@gmu.edu.

COURSE DESCRIPTION: This course introduces and applies basic economic concepts and principles to 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. Topics include productivity and economic growth, 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 it useful and engaging. The aspiration of the
course is to demystify economic ideas and policy choices and translate them 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, taught by Professor Sita Slavov, 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. This two-course sequence is an alternative to traditional introductory courses in micro and macroeconomics offered by economics departments.

**CLASS SESSIONS:** Course is organized around 14 basic questions about economics relevant today. Generally, each question will be addressed during two class sessions. The first of the two sessions will focus on a presentation of the basic economic principles and concepts that are necessary to consider the question. The second session will be focused more on a discussion of 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. Students—even shy ones—may be called on randomly to participate in the class discussion.**

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, which should be submitted electronically the same day to Mr. Armstrong for posting on Blackboard. It is important for fellow students that these be done well. They will be posted prior to the next class session along with the notes will be 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.
Armstrong 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.

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

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<th>Percentage</th>
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<tr>
<td>Quizzes</td>
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<td>Class Participation</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 GMU classes. The tradeoff (a word you will be hearing a lot in this course) is that there are no papers.**

There are five books we will use, all available at the GMU bookstore and on-line. If you want to get a start on the reading over the summer (I would suggest that), try The Undercover Economist.

**Principles of Economics, by N. Gregory Mankiw** (South-Western, Eighth Edition). Although I will only rarely refer to the textbook during class lectures and discussions, you will have to read the assigned
chapters to understand many of the lectures, participate in the
discussions and successfully complete the weekly quizzes. The course is
not organized in the same way the textbook is, so we'll be skipping
around a bit. I've tried not to assign the more arcane and mathematical
sections of the textbook, but if you hit one that is too difficult, just jump
ahead to the next section. If you plan to take Govt 368 next semester,
this will also be the textbook used.

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.

**How Markets Fail: The Logic of Economic Calamities**, by John
Cassidy (Picador/Farrar, Strauss & Giroux, paperback). This recent book
by the New Yorker’s economics correspondent provides an accessible
survey of the history of economic thought in an effort to explain the
recent financial crisis.

**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.

In addition, there will be numerous shorter readings some weeks
that can easily be found online or through the GMU Library, which has
subscriptions to publications with pay walls. A few readings are
available only on e-reserve, which can be accessed through Blackboard
(click on e-reserve in left hand menu). **These shorter readings are not
optional or supplementary—they are integral to the course.** If you
don’t read them, it will show up in your test and quiz scores. Really.
Aug. 28 (M)  **Introduction and Overview: What’s So Great About Economics, Anyway?**

Tradeoffs, scarcity, opportunity cost, cost-benefit, sunk costs, marginal thinking

Mankiw, Principles, Ch. 1 (available on e-reserve)

Ch. 2, pp. 37-45 (on e-reserve)

Harford, Undercover Economist, Ch. 1 (on e-reserve)

Aug 30 (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

Principles Ch. 3

Ch. 23, pp. 483-488, 496-501

Ch. 25

Adam Smith, Wealth of Nations, Ch. 1 (online at Library of Economics and Liberty)

Sept. 4 (M)  **No Class – Labor Day**
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<tr>
<th>Date</th>
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<tr>
<td>Sept. 6</td>
<td><strong>Rich/Poor continued</strong></td>
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<td><em>Why Nations Fail, Acemoglu/Robinson, Ch. 7 (e-reserve)</em></td>
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<td>Undercover Economist, Ch. 8</td>
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<td>Sept. 11</td>
<td><strong>Why Are Markets the Best Way to Organize Economic Activity?</strong></td>
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<td>Supply and demand, reservation price, consumer and producer surplus,</td>
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<td>complements and substitutes, Pareto equilibrium, shifting supply/dem</td>
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<td>mand curves v. moving along curves, “invisible hand,” price controls,</td>
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<td>failure of communism</td>
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<td>Principles Ch. 4</td>
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<td>Ch. 6, pp. 111-121</td>
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<td>Ch. 7</td>
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<td>Sept. 13</td>
<td>Adam Smith, Wealth of Nations, Ch. 2 (online at Library of Economics</td>
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<tr>
<td>(W)</td>
<td>and Liberty)</td>
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<tr>
<td>Library</td>
<td>How Markets Fail, Ch. 2, 3, 4</td>
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<td>Undercover Economist, Ch. 3 and 10</td>
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Sept. 18 (M) **Why Do Markets Sometimes Fail To Maximize Welfare?**

Positive and negative externalities, 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 Ch.10

Undercover Economist, Ch. 4

How Markets Fail, Ch. 9

Sept. 20 (W) **Principles** Ch. 11

How Markets Fail Ch. 10, 11, 12

Sept. 25 (M) **Market Failures, Macro Variety: 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

Principles Ch. 24 and 29

Ch. 30, pp. 633-641
Sept 27 (W)  **Market Failures, Macro: Why Are There Recessions and Depressions?**

Fiscal policy, unemployment, aggregate supply/demand, sticky wages and prices, paradox of thrift, liquidity trap, self-reinforcing (vicious/virtuous) cycles, Keynes v. Hayek

**Principles**  Ch. 28, pp. 585-596  
                 Ch. 33, pp. 707-714

Oct. 2 (M)  **How Markets Fail, Ch. 13**

Robert Skidelsky, Rival Theories of von Hayek and Keynes Still Relevant,” The National, Aug. 2011 (online)

Oct. 4 (W)  **Do Big Companies or Small Ones Drive Economic Growth?**

Perfect and imperfect competition, fixed and variable costs, economies and diseconomies of scale, average cost and revenue v. marginal, oligopoly, monopoly, elasticity of demand, natural monopoly, network effects, outsourcing, entrepreneurship, creative destruction

**Principles**  Ch. 13  
                Ch. 14, pp. 279-287

Oct. 9  **Columbus Day – No Classes— Moved to Tues.**
Oct. 10 (T)  Principles  Ch. 5, pp. 89-91  
Ch. 15, pp. 299-313, 319-322  

Oct. 11 (W)  Review Session for Midterm

Oct. 16 (M)  Midterm Exam – Bring Blue Book

Oct. 18 (W)  Why Doesn’t the Airplane Passenger Sitting Next To You Pay the Same Fare?
Price discrimination, rule of one price, bundling, tying
Principles  Ch. 15, pp. 314-318
Undercover Economist, Ch. 2

Oct. 23 (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
Principles  Ch. 6, pp 121-128  
Ch. 8, pp. 155-168

Alan Reynolds, “Lower Tax Rates Mean Faster Economic Growth,” Cato Institute, 2002 (online)

Oct. 30 (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

Principles Ch. 9

Undercover Economist, Ch. 9

Nov. 1 (W)  Globalization Paradox: Intro, Ch. 1-3, 7-9

Nov. 6 (M)  **Why Do Health Care Costs Rise Faster Than 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 (online through library)

“Forget Who Pays”, July 26, 2009


“Dr. James Will Make It Better,” Nov. 8, 2009
Nov. 8 (W)  Atul Gawande in the New Yorker (online through library)

“Cost Conundrum,” June 1, 2009


Nov. 13 (M)  **Why Do We Keep Having Financial Crises?**

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

Principles  Ch. 26, pp. 547-553
            Ch. 27

Undercover Economist, Ch. 6

Nov. 15 (W)  How Markets Fail, Ch. 14, 16, 19-22

Nov. 20 (M)  **Why Have Incomes Become So Unequal?**

Labor market, income inequality before and after taxes/transfers; class mobility; impacts of immigration, trade, technology, norms of behavior, unions and minimum wage; superstar labor markets; education premium

Principles  Ch. 28, pp. 596-604

Nov. 22  Thanksgiving Break – No Class

Nov. 27 (M)  Why Have Incomes Become So Unequal? (cont’d)


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

Nov, 29 (W)  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, paradox of choice, bounded rationality

Predictably Irrational, Ch. 1-4,

Dec. 4 (M)  Predictably Irrational, Ch. 8,10,12,14

Dec. 6 (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, non-linearity, mathematization of economics

Principles  Ch. 2

John Cochrane, “How Did Paul Krugman Get It So Wrong,” Sept. 16, 2009, Cochrane website at UChicago (online)

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

Dec. 11 (M)  **Optional Review Session for Final**

Dec. 13 (W)  **Final Exam at 1:30 PM – 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 will be asked to leave the class session. Really.

**EXAM POLICY:** You may bring the equivalent of up to 5 (one-sided, double-spaced) pages of typed notes, or the equivalent in handwritten 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. Makeup exams will offered only by permission and must be scheduled within one week of the scheduled exam.

**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 access e-mail through Blackboard. If you cannot attend a class session, please let Mr. Armstrong or me know in advance.
ENROLLMENT: Students are responsible for verifying their enrollment in the class. Last day to add or drop classes without penalty is Tuesday, Sept. 5. 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. No assistance is to be obtained from commercial organizations that sell or lease research help or written papers. With respect to all written work, proper footnotes and attribution are required.