Government/Economics 367
Money, Markets and Economic Policy
Fall, 2018
Mondays and Wednesdays: 1:30-2:45
Buchanan (formerly Mason) Hall D-023

Professor Steven Pearlstein, Robinson Professor of Public Affairs
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Office Hours: Mon, 3:00-4:15; Tues. 2:00-4:00, or by appointment

Teaching Assistant: Monica (Hyun Ju) Kim  hkim14@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, 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 economic principles 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, 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 in each class, which are more satisfying when everyone participates. 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, which should be submitted electronically the same day to Monica 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 Monica 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, 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.

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 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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<tr>
<td><strong>Quizzes</strong></td>
<td>20%</td>
<td>100 points</td>
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<td><strong>Class Participation</strong></td>
<td>20%</td>
<td>100 points</td>
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<tr>
<td><strong>Midterm</strong></td>
<td>25%</td>
<td>125 points</td>
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<td><strong>Final</strong></td>
<td>35%</td>
<td>175 points</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.

There are five books we will use, all available at the GMU bookstore and from on-line sellers. If you want to get a start on the reading over the summer (I would strongly suggest that), start with *The Undercover Economist*, which is breezy and easy to read.

*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 and digest the
assigned chapters to fully understand 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 a patch that is too difficult for you, just jump ahead to the next section. If you plan to take Govt. 368 next semester, this will also be the textbook used for that course as well.

**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 decade-old 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 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 integral to the course. If you don’t read them, it will affect your test and quiz scores. Really.**
CLASS SCHEDULE

Aug. 27 (M)     **Introduction and Overview: Why Study Economics?**

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

Principles     Ch. 1 (e-reserve)

Undercover Economist, Ch. 1 (e-reserve)

Aug 29 (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, democracy and capitalism

Principles     Ch. 3

Ch. 23, pp. 473-482

Ch. 25

Adam Smith, Wealth of Nations, Ch. 1 (e-reserve or online at ibiblio.org)

Sept. 3 (M)     **No Class – Labor Day**
Sept. 5 (W) **Rich/Poor continued**

*Why Nations Fail*, Aaron Acemoglu and James Robinson, Ch. 7 (e-reserve)

Undercover Economist, Ch. 8

Sept. 10 (M) **Why Are 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**

Ch. 4

Ch. 6, pp. 111-12

Ch. 7

Sept. 12 (W) **How Markets Fail, Ch. 2, 3, 4**

Undercover Economist, Ch. 3 and 10

Sept. 17 (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
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<thead>
<tr>
<th>Date</th>
<th>Topic</th>
<th>Notes</th>
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<tbody>
<tr>
<td>Sept. 19</td>
<td><strong>No Class – Jewish Holiday</strong></td>
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<td>Sept. 24</td>
<td><strong>Market Failures/ continued</strong></td>
<td>Principles Ch. 11</td>
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<td>How Markets Fail Ch. 10, 11, 12</td>
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<td>Sept. 26</td>
<td><strong>Why Is There Inflation and Deflation?</strong></td>
<td>Principles Ch. 24, 29</td>
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<td>Oct. 1</td>
<td><strong>Why Are There Recessions and Depressions?</strong></td>
<td>Principles Ch. 28, pp. 577-588</td>
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<td>Ch. 33, pp. 702-707</td>
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<td>Oct. 3</td>
<td>How Markets Fail, Ch. 13</td>
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<td>Oct. 8</td>
<td><strong>Columbus Day – Class Moved to Tuesday</strong></td>
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Oct. 9 (T)  **Do Big Companies or Small Ones Drive Economic Growth?**

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

Principles  Ch. 13

Oct. 10 (W)  **Principles**  Ch. 5, pp. 89-91

Ch. 15, pp. 290-298, 308-312

Oct. 14 (Sun)  **Optional Review Session for Midterm Exam – 3 PM**

Oct. 15 (M)  **Midterm Exam – Bring Blue Book**

Oct. 17 (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. 303-308

Undercover Economist, Ch. 2

Oct. 22 (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 120-128

Ch. 8

Oct. 29 (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

Oct. 31 (W)  Globalization Paradox: Intro, Ch. 1-3


Nov. 5 (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


“Dr. James Will Make It Better,” Nov. 8, 2009
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<tr>
<th>Date</th>
<th>Topic</th>
<th>Readings</th>
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<tr>
<td>Nov. 7 (W)</td>
<td>Atul Gawande in the New Yorker (e-reserve)</td>
<td>“Cost Conundrum,” June 1, 2009</td>
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<td>Nov. 12 (M)</td>
<td>Why Do We Keep Having Financial Crises?</td>
<td>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</td>
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<td></td>
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<td>Principles Ch. 26, pp. 541-546</td>
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<td>How Markets Fail Ch. 14, 16</td>
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<td>Nov. 14 (W)</td>
<td>How Markets Fail, Ch. 18,19</td>
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<td>Nov. 19 (M)</td>
<td>Why Have Incomes Become So Unequal?</td>
<td>Labor market, marginal productivity, efficiency wages, income inequality before and after taxes/transfer, class mobility, impacts of immigration, trade, technology, norms of behavior, unions and minimum wage, superstar labor markets, education premium</td>
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<td>Principles Ch. 18, pp. 361-374</td>
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<td>Ch. 28, pp. 588-596</td>
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<td>Nov. 21</td>
<td>Thanksgivng Break – No Class</td>
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Nov. 26 (M)  **Unequal Incomes / 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)

Nov, 28 (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. 3 (M)  Predictably Irrational, Ch. 8,10,12,14

Dec. 5 (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

Principles Ch. 2

Frederich von Hayek, “The Pretext of Knowledge,” Nobel Prize Lecture, 1974 (e-reserve and online)
Dec. 10 (M)    Optional Review Session for Final Exam

Dec. 12 (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 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. If you cannot attend a class session, please let Monica 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. 4. 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.