

I. COURSE INFORMATION: SYLLABUS

A. Contact:

1. Office: PLC 539.
2. Email address: LSINGELL@OREGON.
3. Office phone: 346-4672.

B. Office Hours:

1. When _____ .
2. Where _____ .

C. Required Text:

Economics: Principles and Tools, Arthur O'Sullivan Steven M. Sheffrin, 2nd Ed., Prentice-Hall Press.

D. Course Format:

1. Lecture oriented
2. But ask questions! side-benefit from college is the ability to talk in large groups.

E. Exams and Grading Policy:

1. 2 midterms: 25 percent of grade in class:

When_____.

2. Final: 40 percent of grade

When_____.

3. Exams cannot be rescheduled for any reason.
4. "C-" in the course in order to receive a pass.

F. Discussion Sections:

1. Student must enroll in a discussion section.

2. Sections are used to:

- review material presented in lecture and in the text;
- answer questions regarding the problems in the text and midterms;
- administer six multiple-choice quizzes.

3. Quizzes: remaining 10 percent of the course mark.

- 5 multiple-choice questions;
- given at the beginning of each section;
- exceptions: first week, two midterm weeks, dead week;
- lowest quiz mark dropped.

G. Web Cite: <http://darkwing.uoregon.edu/~lsingell>

1. Important source of information
2. E.g., a copy of the syllabus and a posting of the answer key after exams.
3. Each Friday afternoon 20 multiple-choice questions posted: quizzes are random draw.

H. Scantrons, etc. - multiple-choice format for all exams and quizzes.

1. #2 lead pencils.
2. A good eraser
 - Scantron answer form (available at the UO Bookstore)
 - a student ID card

Note: Extra Scantrons will not be available in class and are required

II. THE BIG PICTURE

GOAL OF SECTION: ANALYZE CENTRAL FACTORS IN DEVELOPMENT OF MARKETS

A. What Economics Is & Is NOT.

1. Economics is not a subject matter - it is a set of principles to explain behavior - the choices people make.
2. E.g., Marginal Principle: decision making units (i.e., individuals, firms, governments, families) continue to undertake an activity as long as the additional benefits exceed the additional costs.

3. Dating ex:

4. Implication:

- economics is more than just the economy
- economics applies to everything: economics is boring only if life is boring

B. The Birth of Economics

1. The father of economics: Adams Smith

- planted the seed the fundamental principles of economics

2. The mother of economics: the emergence of markets

- humankind (or a close approximation) has been on the planet for 3 to 6 million years
- civilization (i.e., a movement from a non-literate, rural, hunter-gatherer economy to a literate, urban, farm-based economy) has been around only for the last 10,000 years.
- non-subsistence living (i.e., a consistent, significant, and large proportion of the population living about subsistence) has been around for only the last 300 years and for only a small fraction of the worlds population.
- the emergence of markets that resulted in the trade of surplus goods provided the fertile soil necessary for the development of modern economics - the choices people make only become interesting when humanity is living beyond subsistence

3. (Adam Smith) + (emerging markets) = birth of the first economics text book: The Wealth of Nations (1776).

- wide spread affluence was possible
- it was central to human development
- free market was the key to spread of affluence
- **Moral of Story:** Early role of economics and much of what is discussed in this class seeks to explain how wealth creation works

C. Smith's Steps to Creating Affluence

1. A surplus in the primary industry that:

- is greater than the rate of growth in population
- is invested in capital (physical and human)

2. Manufacturing development extends urbanization.

Economies to scale are fostered.



Exchange is enhanced.

3. Urbanization extends markets: important developments include.
 - money systems expand (Chinese money story)
 - bookkeeping develops
 - credit systems become legitimized
4. Markets extend the specialization of labor.
5. Productivity improvements are sought in manufacturing.
 - application of science to industry
 - human capital development
6. Growth of the service sector.
7. Rationalization of life
 - demystification of tradition
 - the critical role of moral development

III. SCARCITY & EXCHANGE: INTRODUCTION TO THE MARKET SYSTEM AND THE ROLE OF GOVERNMENT IN THE ECONOMY

GOALS OF SECTION:

- 1) Define scarcity from an economic point of view and illustrate this central concept with a production possibility curve.
- 2) Identify and explain the foundation of exchange and illustrate how the gains from exchange lead to markets.

- 3) Outline the basic markets that will be considered in the course and provide an organizational model for the course.
- 4) Consider the role of government in the economy

A. Scarcity Necessitates Economizing: Point of Departure for Economics.

1. Scarcity is a situation where resources are insufficient to meet all of peoples wants and needs. To economists wants seem unlimited, while at any one time resources are fixed.
2. This leads to or requires choice, where choice is a selection among alternatives. To "economize" means to try to get the most of what we value given the constraint of our resources.
3. Economics is the study of choices people make and the actions they take in order to make the best use of scarce resources.
4. Economists represent scarcity and the choices that are possible by a production possibility curve. This curve shows the maximum amount of (any) two goods that the economy can produce.

For example, consider a world where you only have 10 hours available and you must allocate your time between money (which you get by working at a fixed wage of \$6 per hour) and study. The average grade you can earn with various hours of study and the income you can obtain with various hours of work are given in the following table:

Hours	Income	Average Grade
1	\$6	50
2	12	65
3	18	74
4	24	81
5	30	86
6	36	90
7	42	93
8	48	95
9	54	96
10	60	96.5

Draw Graph

Note: A very important economic principle is evident in this example. In short, there is no such thing as a free lunch (or grade). More formally this principle says that substitution is the law of life in a full employment society.

B. The Foundation of Markets:

1. Markets exist to facilitate exchange between people (or countries) that specialize and are thus not self-sufficient.
2. Specialization exists because people (or countries) face different opportunity costs. These differences result in a comparative advantage to specialize and trade.

Some important definitions:

Opportunity cost is what you sacrifice to get something.

Comparative advantage is the ability of a person or country to produce a good at lower opportunity costs.

Absolute advantage is the ability of a person or country to produce a good at a lower absolute cost.

Occupation	Earnings Per Hour of Person A	Earnings Per Hour of Person B
Lawyer	\$300	\$25
Secretary	\$30	\$20

Note: could re-label country & specialization

Examples:

Note: The principle of comparative advantage means that under most circumstances people, or countries, will do better if they specialize and trade. Also no matter how inefficient you may be or feel, you have a comparative advantage to do something!

C. An Overview of the Markets to Be Studied in this Course.

1. Early economists saw the economy as a circular flow. Explain.

2. The basic markets to be studied in this course:

- Factor or input markets.
- Product or output markets.

3. Microeconomics versus Macroeconomics:

- the study of individuals and firms decisions versus all consumers and business firms.
- microeconomics focuses on individual or firm actions.
- macroeconomics focuses on the total economy. The goal of macroeconomics is to understand the causes of unemployment, inflation economic growth and prosperity.

D. A Preliminary Examination of the Role of Government.

1. Economists justify government intervention into the economy by considering the ways markets may fail.
2. Economists contrast this market failure with the possibility of government failure.
3. The major areas to be considered in this course include:
 - Spillovers of costs or benefits.
 - Imperfect competition.
 - Macroeconomic failure.

IV. THE BARE NECESSITIES OF THINKING ECONOMICALLY

GOALS OF SECTION:

- 1) Define five key economic principles
- 2) Illustrate their usefulness

A. Define "principle"

1. Text says: "...a simple truth that most people understand and accept"
2. Dictionary says, "...a fundamental truth, law...or motivational force upon which others are based

B. The Principle Opportunity Cost

1. Definition: The real cost of anything is what you sacrifice to get it
2. Usefulness or some exemplary applications:

- What it costs to come to class? Recall example from lectures III.

- The cost of attending college.

- Others: (1) The cost of owning your home; (2) The cost of reducing unemployment; (3) The cost of cutting taxes.

C. THE MARGINAL PRINCIPLE

1. Whenever you see the term "marginal" you must always think of computing the change in the relevant variables.

2. Definition: If you want to do the best you can, (e.g. maximize your profits) expand what you are doing as long as the marginal benefit exceeds the marginal costs

PRODUCTION	REVENUE	COST
1,000 Nike Shoes	\$100,000	\$90,000
2,000 Nike Shoes	\$108,000	\$95,000

Calculations.

3. Usefulness or applications:

- The best amount of goods (e.g., clean air, health care, education)

- The best amount of a "bad" (e.g. pollution, crime).

D. The Principle of Diminishing Marginal Returns

1. Definition: If two or more inputs are used to produce a good, increasing the use of one input, while others are held constant will result, after some point, in output increasing at a decreasing rate (or marginal output declining).

Number of Workers	Big Mac Output	Marginal Output
1	5	
2	15	
3	30	
4	37	
5	40	
6	38	

2. Usefulness or applications:

- The returns to studying. (Go back to lecture III and use data in table.)

- The cause of inflation.

- Falling living standards when population grows.

E. The Spillover Principle

1. Definition: When costs or benefits are experienced by people who did not make the decision about how much of the good to produce or consume.

2. When spillovers exist market solutions do not provide the ideal amount of production or consumption.

2. Usefulness or applications:

- Pollution.

- Congested highways.

- Education

- Moral behavior

F. The Reality Principle

1. Definition: In economic decisions people will (and ought to) be motivated by the real value of what they obtain (purchasing power or opportunity value) not the face or nominal value. Real value adjusts for relevant price changes.

2. Usefulness or application:

- Change in your earnings, or did you really get a raise?

- The value of winning the lottery.