

SYLLABUS

INDV 103—SOCIAL AND INSTITUTIONAL SYSTEMS: The Role of Markets and Incentives

- Instructor:*** Bruce R. Beattie, 328 Economics Building, 621-9642, beattie@u.arizona.edu
- Core:*** Satisfies Tier One in the “Individuals and Societies” block of Gen. Ed. Math proficiency at the basic university level is assumed.
- Textbook:*** *Principles of Microeconomics* (3e) by Mankiw (2004) – eight chapters; and *Microeconomics: Private & Public Choice* (11e) by Gwartney, et al (2006) – two chapters
- Scope:*** For all individuals and societies the fundamental questions of “what to produce,” “how to produce,” and “for whom to produce” are inescapable. Throughout much of the world these matters are resolved using market mechanisms driven by economic incentives and price signals. This course focuses on a few first principles of economics with the aim of understanding 1) how markets work, 2) the normative significance of markets as a non-coercive and cooperative form of social interaction, 3) circumstances under which the normative significance and efficacy of market outcomes might be questioned (so-called “market failure”), and 4) problems associated with government intervention to remedy “market failure” and other perceived ills (so-called “government failure”).
- Incentives:*** An important first principle that we will be discussing is the idea that *incentives matter*. Social and economic outcomes are largely determined by the choices that individuals and groups make in response to the incentives they face. One of my duties as your professor is to provide a set of incentives that are consistent with responsible behavior and achievement. Learning requires active participation and practice. Accordingly, my teaching/grading strategy rewards: 1) faithful attendance, 2) regular out-of-class practice, 3) mastery of essential ideas, and 4) on-time performance.
- Learning Outcomes:*** Upon completion of this course you will know how (and why) it is that:
- Both parties to a market transaction (demanders and suppliers) gain from their exchange (trade)
 - Markets can generally be expected to maximize social welfare
 - Markets sometimes fail
 - Government intervention in the marketplace to remedy market failure, and for other reasons, often reduces social welfare
 - The incentives that individuals face (in both their private and public lives) predictably govern the outcome of private and public choices
- You will also learn:
- How to determine who gains and who loses from government intervention/policy
 - To predict changes in market prices and quantities of goods and services due to changes in tastes and preferences, consumer income, prices of related goods, population, improved technology, and production costs.

Grading: Your course grade will be based on points earned on your **best three of four** 20-point problem/writing sets (PWS), four 50-point exams, and an “optional” 100-point final exam (see possible point scenarios below). PWSs are due **at the beginning of class on the due date. No late PWSs will be accepted.** If you fail to hand in a PWS on time, your score for that activity will be recorded as zero. **No make-up exams will be given.** Scores for missed exams will be recorded as zero. However, in addition to being able to drop your lowest PWS score (noted above), you will be allowed to replace your lowest exam score by taking the **optional final exam.** If you miss one of the exams, you will be **required** to take the final exam.

Possible Point Scenarios

	Possible Points	
	w/o final	with final
Problem/Writing Sets (PWS)	60	60
Midterm Exams	200	150
Final Exam	--	<u>100</u>
Total possible points	260	310

Determination of course grade: Your course grade will be determined by your percentile score (total points earned divided either by 260 or 310 depending on whether you elect to take the optional final):

≥ 90 % = A; 80 to 89 % = B; 70 to 79 % = C; 60 to 69 % = D; < 60 % = E.

Deciding whether or not to take the optional final exam: At the beginning of the last class day I will provide you with a slip of paper showing your total points earned for PWSs and Exams 1, 2, 3, and 4. Your final percentage score based on 260 possible points and your course grade will also be recorded on the slip of paper. Lastly, the number of points that you would need to earn on the final exam in order to raise (or lower) your course grade will also be given to you. Those happy with their grade earned will be excused. If you are interested in the chance of raising your course grade, you will be invited to remain and review for the final exam. (Again, if you missed one of the four exams you will be *required* to take the final exam.)

Plagiarism penalty: Plagiarism is a form of cheating and will not be tolerated. I encourage you to work together on the PWSs (discuss the problem and share ideas). However, each of you is expected to produce your own individual final report for each PWS. Failure to do so will result in the awarding of zero points for a “copied” PWS for all parties involved.

Special Needs: Students who need special accommodation or services should contact the DRC (Disability Resources Center), 1224 East Lowell Street, Tucson, AZ 85721, (520) 621-3268, FAX (520) 621-9423, <http://www.drc.arizona.edu/>. You must register and request that the DRC send me official notification of your accommodations needs as soon as possible.

Weekly Class Schedule: Fall 2005

<i>Week #</i>	<i>Days</i>	<i>Topics* & [Important Items/Days to Note]</i>	
1	MWF	Intro; 7 principles; econ science	
2	MWF	Econ policy; why disagreement; math review	
3	WF	Markets & competition; demand	[M is holiday]
4	MWF	Supply; supply & demand	[PWS #1 due F]
5	MWF	Supply & demand (cont.); elasticity	[Exam #1 on F]
6	MWF	Elasticity (cont.); elasticity applications	
7	MWF	Govt intervention; welfare econ	[PWS #2 due F]
8	MWF	Consumer surplus; producer surplus	[Exam #2 on F]
9	MWF	Market efficiency; trade	
10	MWF	International trade	[PWS #3 due F]
11	MWF	Govt intervention: farm policy	[Exam #3 on F]
12	MW	Govt spending & characteristics	[F is holiday]
13	MWF	Govt and shortcomings of the market; op. cost of govt	
14	MW	Water/environmental application [PWS #4 due W; F is holiday]	
15	MWF	Collective decision making; govt failure	[Exam #4 on F]
16	MW	Public sector vs the market	[Last class is W]
17	"Optional" final exam: Friday, Dec. 16, 8:00 to 10:00		

* More detailed topic outline and reading assignments on "Detailed Course Outline", pp. 4-7.

Important Dates

PWS due:

- #1 Friday, Sept. 16**
- #2 Friday, Oct. 7**
- #3 Friday, Oct. 28**
- #4 Wednesday, Nov. 23**

Mid-term exam days:

- #1 Friday, Sept. 23**
- #2 Friday, Oct. 14**
- #3 Friday, Nov. 4**
- #4 Friday, Dec. 2**

Detailed Course Outline and Reading Assignments

INDV 103—SOCIAL AND INSTITUTIONAL SYSTEMS: *The Role of Markets and Incentives*

I. THE BIG PICTURE AND SOME PRELIMINARIES (2 wks.)

Chapter 1: Principles of Economics

- A. Functions of Economic Systems; Scarcity and Economics Defined (pp. 3-4)
- B. Seven Fundamental Principles of Economics (pp. 4-11)
 - How People Make Decisions*
 - 1. Tradeoffs: “There ain’t no free lunch” (efficiency and equity defined)
 - 2. Opportunity cost
 - 3. Rational choice involves thinking at the margin
 - 4. Incentives matter
 - How People Interact*
 - 5. Comparative advantage and gains from trade
 - 6. Advantage of markets in organizing economic activity
 - 7. Government can sometimes improve market outcomes (and sometimes not)

Chapter 2: Thinking Like an Economist

- C. The Economist as Scientist (pp. 19-23)
 - 1. The scientific method: observation, theory, and more observation
 - 2. The role of assumptions
 - 3. Economic models
- D. The Economist as Policy Advisor (pp. 28-30)
 - 1. Positive versus normative analysis
 - 2. Economists in Washington
- E. Why Economists Disagree (pp. 30-31)
 - 1. Differences in scientific judgments
 - 2. Differences in values
- F. Mathematics Review (pp. 36-42)
 - 1. Why mathematics – getting comfortable with mathematical notation
 - 2. The coordinate system and scatter plots
 - 3. The connection between tabular data, graphs, and equations
 - 4. Curves in the coordinate system
 - 5. Slope

II. SUPPLY AND DEMAND I: HOW MARKETS WORK (4 wks.)

Chapter 4: The Market Forces of Supply and Demand

- A. Markets and Competition (pp. 63-65)
 - 1. Competitive markets
 - 2. Competition: perfect and otherwise
- B. Demand (pp. 65-71)

1. The determinants of individual demand
 2. The demand schedule and the demand curve
 3. Ceteris paribus
 4. From individual demand to market demand
 5. Shifts in the demand curve
- C. Supply (pp. 71-75)
1. The determinants of individual supply
 2. The supply schedule and the supply curve
 3. From individual supply to market supply
 4. Shifts in the supply curve
- D. Supply and Demand Together and Comparative Statics (pp. 75-84)
1. Equilibrium
 2. Three steps to analyzing changes in equilibrium
 3. Prices as signals that guide resource allocation
- E. How to Score Well on Economics (and Perhaps Other) Essay/Story Problems

Chapter 5: Elasticity and Its Application

- F. Elasticity of Demand (pp. 89-91; 99-100)
1. Price elasticity of demand and its determinants
 2. Income elasticity of demand
- G. Elasticity of Supply (pp. 100-101)
- H. Two Example Applications (pp. 104-106; 108-109)
1. Can good news for farming be bad news for farmers?
 2. Does drug interdiction increase or decrease drug-related crime?

Chapter 6: Supply, Demand, and Government Policies

- I. Price Controls (pp. 113-123)
1. How price ceilings affect market outcomes
 2. How price floors affect market outcomes

III. SUPPLY AND DEMAND II: MARKETS AND WELFARE (4 wks.)

Chapter 7: Consumers, Producers, and the Efficiency of Markets

- A. Welfare Economics (pp. 137-138)
- B. Consumer Surplus (pp. 138-142)
1. Willingness to pay
 2. Using the demand curve to measure consumer surplus
 3. How a lower price raises consumer surplus
 4. What does consumer surplus measure?
- C. Producer Surplus (pp. 143-147)
1. Cost and the willingness to sell
 2. Using the supply curve to measure producer surplus
 3. How a higher price raises producer surplus
- D. Market Efficiency (pp. 147-153)
1. The benevolent social planner
 2. Evaluating market equilibrium (welfare triangle; ideal output and price; and Adam Smith's "Invisible Hand")

Chapter 9: Application: International Trade

- E. Determinants of Trade (pp. 175-177)
 - 1. Equilibrium without trade.
 - 2. World price and comparative advantage
- F. Winners and Losers from Trade (pp. 178-188)
 - 1. Gains and losses of an exporting country
 - 2. Gains and losses of an importing country
 - 3. Effects of a tariff
 - 4. Effects of an import quota
 - 5. Lessons for trade policy
- G. Arguments For and Against Restricting Trade (pp. 188-192)
- H. *Hot Topic* in Trade (guest lecture)

Application: Farm Policy (no reading)

- I. Price Subsidies Without Production Quotas
 - 1. Gains and losses to producers, consumers, and taxpayers
 - 2. The net economic loss
- J. Production Quotas
 - 1. Gains and losses to producers, consumers, and taxpayers
 - 2. The net economic loss
- K. Public-Sector Agricultural Research and Development
 - 1. Gains and losses to producers, consumers, and taxpayers
 - 3. The net economic gain (loss)?
- L. *Hot Topic* in Farm Policy (guest lecture)

IV. MARKET FAILURE, GOVERNMENT FAILURE, AND PUBLIC CHOICE (5 wks.)

Chapter 5: Difficult Cases for the Market and the Role of Government (Gwartney, et al)

- A. A Closer Look at Economic Efficiency (pp. 108-109)
- B. If It's Worth Doing, It's Worth Doing Imperfectly (pp. 109-110)
- C. Thinking About the Economic Role of Government (pp. 110-111)
 - 1. Protective function of government
 - 2. Productive function of government
- D. Potential Shortcomings of the Market (pp. 112-120)
 - 1. Lack of competition
 - 2. Externalities—a failure to account for all costs and benefits
 - 3. Public goods and why they pose a problem for the market
 - 4. Potential information problems
 - 5. Information as a profit opportunity
- E. Pulling Things Together (pp. 121)
- F. *Hot Topic* in Environmental or Water Resource Economics (guest lecturer)

Chapter 6: The Economics of Collective Decision Making (Gwartney, et al)

- G. The Size and Growth of the U.S. Government (pp. 125-127)
- H. The Differences and Similarities Between Governments and Markets (pp. 127-128)

- I. Political Decision Making: An Overview (pp. 129-132)
 - 1. Incentives confronted by the voter
 - 2. Incentives confronted by the politician
 - 3. Incentives confronted by the government bureaucrat
- J. When the Political Process Works Well (pp. 132-134)
- K. When the Political Process Works Poorly (pp. 134-140)
 - 1. Special-interest effect
 - 2. Shortsightedness effect
 - 3. Rent seeking
 - 4. Inefficiency of government operations
- L. Economic Organization: Who Produces, Who Pays, and Why It Matters (pp. 140-141)
- M. The Economic Way of Thinking about Government (pp. 142-143)