

Princeton University
Department of Economics

Economics 102
Fall Term 2002

Description and Analysis of the Price System

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Office Hours:

Tu: 3:30-5:30 pm

W: 3:30-4:00 p.m.

Th: 11-12 noon and 3:30-5:30 pm.

Fr: 1-2:30 p.m.

Organizer: Hong Li

email: hli@Princeton.edu

All changes in precept assignments must be arranged through the organizer.

Lecture: T/Th 10:00-10:50 McCosh 50

(There are two lectures and one precept/class each week.)

Required Text: Baumol, W.J. and A. S. Blinder, Microeconomics, ninth edition, paperback or hardback. (referred to below as B&B) If you have the seventh or eighth edition, that's okay too.

Required Packet of short readings, problem sets, notes and related course materials is for sale at Pequod Copy (U-store)

There will be weekly assignments from The Economist. You may share a subscription. Subscriptions will be arranged at the first precept only. If you wish to subscribe to The Economist, bring cash or a check payable to E. C. Bogan for \$17 to your first precept. The Economist will be given out in precepts to those who order it. (You get a total of 10 issues.)

Course Requirements and Grading

The course requirements are weighted as follows in determining your grade.

Final examination	50%
Mid-term	35%
Problem sets & participation in precepts	15%

You will get more out of this course if you discuss the Packet readings with classmates. You are also encouraged to discuss problem sets with classmates, but the work you hand in must be written by you.

Any student caught cheating on any component of the course will receive a failing grade for the entire course. (Princeton students are expected to act in an honorable manner so the previous sentence should be irrelevant.)

Lectures

Lecture #	Topic
1	Sept. 12 Introduction B&B 9 th edition Chapters 1-2
2	Sept. 17 Comparative Economic Systems The Market Economy B&B, 9 th edition Chapter 3 <i>Supply and Demand: An Initial Look</i> Alan Krueger, "Economic Scene"(in Packet)
3-4	Sept. 19,24 Consumer Choice B&B. 9th Ed., Chapter 4, including the Appendix, <i>Consumer Choice: Individual and Market Demand</i>
5-6	Sept. 26, Oct 1 Decision Making with Probabilistic Outcomes (in Packet) The Economics of Crime (in Packet)
7	Oct. 3 Market Demand and Elasticity B&B, 9th Ed., Chapter 5 including the Appendix, <i>Demand and Elasticity</i>
8	Oct. 8 The Firm and Its Goals B&B, 9th Ed. Chapter 6 <i>Production, Inputs, and Cost: Building Blocks for Supply Analysis</i> and Chapter 7 <i>Output, Price, and Profit: The Importance of Marginal Analysis</i> , include the Appendices
9-10	Oct.10,15 The Firm and Industry under Perfect Competition B&B 9th Ed., Chapter 8
11	Oct.17 The Price System and the Case for Free Markets B&B, 9th Ed., Chapter 9
12	Oct. 22 Catch up and Review MIDTERM EXAM - Tuesday evening, Oct. 22 at 7:30 pm
13-14	Oct. 24, Nov. 5 Welfare Economics H.Rosen, <u>Public Finance</u> , Chapter 4 (in Packet)
15	Nov. 7 Shortcomings of the Market Mechanism and Problems with Government Allocation B&B. 9th Ed., Chapter 12 <i>The Market Mechanism: Shortcomings and Remedies</i>

- 16 Nov. 12 Monopoly
B&B, 9th Ed., Chapter 10
- 17 Nov. 14 Between Competition and Monopoly
B&B, 9th Ed., Chapter 11
- 18 Nov. 19 Microeconomics of Innovation
B&B, 9th Ed., Chapter 13 *Microeconomics of the New Economy: Innovation and Growth*
Investment Banking
(B&B, 9th Ed., Chapter 14 *Real Firms and Their Financing* will be covered in Precepts.)
- 19 Nov. 21 Regulation and Antitrust
B&B, 9th Ed., Chapter 18 *Limiting Market power: Regulation and Antitrust*
- 20 Nov.26 Pricing the Factors of Production
B&B, 9th Ed., Chapter 15 including the Appendix
Predicting the Pay of Ballplayers (in Packet)
- 21-22 Dec. 3,5 Labor Markets and Wages
B&B 9th Ed., Chapter 16 *Labor: The Human Input*
- 23 Dec. 10 Income Inequality
B&B, 9th Ed., Chapter 17 *Poverty, Inequality, and Discrimination*
- 24 Dec. 12 The Environment
B&B, 9th Ed., Chapter 20 *Externalities, the Environment, and Natural Resources*
Alan Blinder, Hard Heads, Soft Hearts, Chapter 5, Cleaning up the Environment: Sometimes Cheaper is Better, pages 138-159 (on Reserve)

NOTE: If you use the eighth edition there are two more introductory chapters; so for Chapter 3 or higher just add 2 to the numbers listed above for the 9th edition. i.e. Chapter 3 in the 9th edition is chapter 5 in the 8th edition, etc.

Optional Review Class on the last day of Reading Period
Tuesday, January 14, REVIEW 4-6 pm. McCosh 50

Precept Assignments

Precepts meet Thursdays, Fridays, and Mondays

The typical precept will consist of the following parts:

1. Solutions to the most difficult problems in that weeks problem set.
(Answer sheets will be on the web the next week. If the answer sheet doesn't make everything in the problem set clear to you, see me or your preceptor in our office hours.)
2. The preceptor's elaboration of theoretical topics introduced in recent lectures. Answers to students' questions.
3. Class discussion of the assigned "special interest" topic(s).
(Every student is expected to have read these short assignments before precept and be willing to share his or her opinions on the topic(s).)

September 19,20,23

Discussion of Supply and Demand

Please read B&B Chapter 3 before precept

"Higher Alcohol Prices and Student Drinking" NBER Digest, June 2002 (in Packet)

"To Bear or Not to Bear" Regional Economist, July 2001 (in Packet)

September 26,27,30

First Problem Set Due

Discussion of private versus government ownership of business:

"The Modern Adam Smith" The Economist, July 14, 1990 (in Packet)

Elizabeth C. Bogan, "Transition in the Russian Economy" (in Packet)

Becker and Becker, The Economics of Life, pp. 32-33, 203-204 (in Packet)

1. What did Smith mean that private gain could yield social good?
2. What is the fundamental problem in choosing the output mix in a centrally controlled economy?
3. What Government functions did Smith agree with?
4. What went wrong in the Russian Economy in the 1990s?
5. What could the U.S. have done to promote a democratic, market-oriented Russia? Why didn't we?
6. What are the Beckers' criticisms of public enterprises?
7. How would the Beckers' reduce corruption of government?
8. Can capitalistic excesses of recent years be prevented?

October 3,4,7

Second Problem Set Due

Discussion of the Economics of Education

John Miller, "Why School Choice Lost" The Wall Street Journal, Nov. 4, 1993, p. A-14 (in Packet)

Eric A. Hanushek, "Making America's Schools Work" The Brookings Review, pp. 10-13, Fall 1994 (in Packet)

Becker and Becker, pp. 82-85 (in Packet)

Adam Nagourney, "Supreme Court, 5-4, Upholds Voucher System that Pays Religious Schools Tuition" New York Times, June 28, 2002, p. A17. (in Packet)

Alexandra Starr, "Does Universal Preschool Pay?" Business Week, April 29, 2002, pp. 98-99 (in Packet)

1. How would a school choice system work?
2. What are the pros and cons of school choice?
3. Why did school choice lose in California?
4. What was the significance of the Supreme Court decision of June 2002 that related to vouchers?
5. What are the costs and benefits of universal public preschool education?

October 10,11,14

Third Problem Set Due

Discussion of Crime:

"Getting Gangsters Out of Drugs" The Economist, April 2, 1988 (in Packet)

Sidney Zion, "Make Them Legal" and J. Califano, "No, Fight Harder" The New York Times, December 15, 1993, p. A-21 (in Packet)

Becker and Becker, pp. 142-144 (in Packet)

John Lott, "More Guns, Less Violent Crime" WSJ, 8/28/96 (in Packet)

Becker, "How the U.S. Handcuffed the Crime Rate" Business Week, December 28, 1998, p. 28. (in Packet)

"Why Juvenile Crime Exploded" Business Week, 11/24/97 p. 32 (in Packet)

"Winning the War on Crime for the Moment" The Economist, June 29, 2002, pp. 27-28. (in Packet)

David R. Frances, "College Drinking and Drug Use" NBER Digest, November 2001 (in Packet)

William Tucker, "Yes, The Death Penalty Deters" WSJ, 6/21/02 p. A8. (in Packet)

1. What are the main arguments for keeping drugs illegal?
2. What are the additional costs to society of keeping drugs illegal that do not show up in the illegal supply curve for drugs?
3. What does The Economist recommend for handling heroin?
4. Why did crime rates fall in the 1990s? What happened to juvenile crime in the 80s and 90s?

5. What has been the effect on crime of laws to allow responsible citizens to carry concealed weapons? What theory predicted this outcome? Does this econometric study say anything about a complete ban on guns?
6. How would you frame a cost-benefit analysis of the death penalty?

October 17,18,21

Fourth Problem Set Due

Highlights of B&B Chapter 7 and Appendix

Discussion of Marginal Cost Pricing:

"Living with the Car" The Economist, December 6, 1997 (in Packet)

"Taxes, Not Rules Reduce Drunk Driving Deaths" NBER Digest, January 1996 , pp. 1-2 (in Packet)

1. Given the budget constraint, total utility is maximized when:
2. For a given cost, total product is maximized when:
3. What is the "marginal" condition for profit maximization?
4. Do firms maximize profits?
5. Why would road-use-fees increase efficiency?

October 24 to Nov. 4

NO REGULAR PRECEPTS - Fall Break

November 7,8,11

Fifth Problem Set Due

Mid-terms returned

Discussion of Critiques of Mainstream Economics

Barlett, Economics and Power, p. 89-101 (in Packet)

"What is Socio-Economics?" Society for the Advancement of Socio-Economics, Summer 1995, (in Packet)

Etzioni, "A New Kind of Socioeconomics" Challenge, January - February 1990. pp. 31-31 (in Packet)

Strober, "Can Feminist Thought Improve Economics? Rethinking Economics Through a Feminist Lens" American Economic Review, May 1994, pp. 143-147 (in Packet)

Aaron, "Public Policy, Values and Consciousness" Journal of Economic Perspectives, Vol. 8 #2, Spring, 1994 pp. 3-21 (in Packet)

Discussion of Welfare Economics

Picker, "Do Cigarette Taxes Make Smokers Happier?" NBER Digest, July 2002. (in Packet)

Becker and Becker, pp. 58-59 (in Packet)

November 14,15,18

No problem set because you have extra reading this week

Discussion of Corporate Finance:

Baumol & Blinder, Chapter 14 *Real Firms and Their Financing*

Discussion of Innovation

B&B Chapter 13 *Microeconomics of The New Economy: Innovation and Growth*

Baily, "The New Economy Post Mortem or Second Wind?" Journal of Economic Perspectives, Vol. 16, pp. 15-16. (in Packet)

Discussion of Antitrust and Cartels

"The Economics of Antitrust" The Economist, 5/2/98, pp. 62-64

Becker and Becker, 164-165, 167-168 (in Packet)

Gilbert and Katz, "An Economist's Guide to U.S. v Microsoft" Journal of Economic Perspectives, Spring 2000, pp. 25-44 (in Packet)

"Microsoft: An Unsettling Settlement" The Economist, Nov. 10, 2001, pp. 57-58 (in Packet)

"Microsoft and the EU: The Next Battleground" The Economist, Nov. 10, 2001, pp. 58-59 (in Packet)

1. What is a cartel?
2. Is the NCAA a cartel?
3. What were the antitrust issues with Microsoft?

November 21,22,25

Sixth Problem Set Due

Discussion of Regulation and Consumer Protection:

Liptak, "Medical Students Sue Over Residency System" NY Times.com, May 7, 2002 (in Packet)

Thornton and Henry, "Big Guns Aim for Change" Business Week, June 24, 2002, pp.136-39. (in Packet)

"Accounting for Change" The Economist, June 29, 2002, pp. 13-14. (in Packet)

Friedman & Friedman, Free to Choose, Chapter 7, Who Protects the Consumer? (on reserve in Firestone Library)

"Mouse Terrorism" The Wall Street Journal, 6/9/97 (in Packet)

"Catch Us if You Can" The Economist, October 19, 1996, p. 68 (in Packet)

Murray Weidenbaum, "Are Drug Prices Too High?" The Public Interest, Number 112, pp. 84-89 (in Packet)

Cutler and Gruber, "Health Policy in the Clinton Era: Once Bitten, Twice Shy" Working Paper 8455, NBER, September 2001 (in Packet)

1. What are the anti-trust issues concerning the National Resident Matching Program?
2. How do markets punish corporate excesses?
3. What are some of the regulatory issues raised by the corporate accounting scandals of 2002?
4. Do you think tighter regulations would have significantly reduced the late 1990s stock market bubble?
5. For the benefits of regulation to exceed the costs we need to look at the full costs. What are included in direct and indirect costs of regulation?
6. According to the Friedmans, what motive did the railroad men have in helping to establish the ICC?
7. Can the F.D.A. minimize Type I and Type II errors at the same time?
8. What was the point of the Tris flame retardant story?
9. What do the Friedmans consider to be the best protection against private monopoly?

No precepts November 28,29, Dec 2 because of Thanksgiving on November 28th

December 5,6,9

Seventh Problem Set Due

Discussion of Labor Markets and Affirmative Action:

"Racial Bias Against Black Job Seekers Remains Pervasive, Broad Study Finds" The Wall Street Journal, May 15, 1991, p. A-8 (in Packet)

"Bias Still Blocks Black Progress", Business Week, July 7, 1997 (in Packet)

"Blacks in America" The Economist, Nov. 4, 1995 (in Packet)

John Siegfried, "Sports Player Drafts and Reserve Systems" CATO Journal, Vol. 14, #3, pp. 443-451 (in Packet)

"A Wealth of Working Women" The Economist, June 8, 1996, pp. 27-28 (in Packet)

Koretz, "Superwoman? Good Luck" Business Week, October 30, 1995 (in Packet)

Blau and Kahn, "The Gender Pay Gap" NBER Reporter, pp. 8-11, Summer 2001. (in Packet)

Gutner, "How to Shrink the Pay Gap" Business Week, June 24, 2002, p. 151 (in Packet)

"Executive Women and the Myth of Having it All" HBR OnPoint 2002, Harvard Business School. (in Packet)

1. Does affirmative action necessarily imply quotas?
2. What is the general perception about the difficulty of finding jobs for equally qualified blacks and whites?
What did the Urban Institute find?
3. What is happening to black women in the workplace?
4. How do Blau and Kahn answer their question, how can we explain the decrease in the gender pay gap in the 1980s, when overall shifts in labor market returns were working against women as a group?
5. "A Wealth of Working Women" was written in 1996. Compare the results reported there with the 2002 article, "How to Shrink the Pay Gap".

**December 12, 13 PLEASE NOTE THAT PRECEPTS SCHEDULED FOR MONDAY
WILL BE RESCHEDULED FOR THURSDAY OR FRIDAY DECEMBER 12 OR 13**

Eighth Problem Set Due

Discussion of the distribution of income and the problem of poverty

Robert Reich, "As the World Turns" The New Republic, May 1, 1989, pp. 23, 26-28 (in Packet)

Gary Burtless, "Growing American Inequality" Brookings Review, Winter 1999, pp. 31-35 (in Packet)

"When Winners Take All" The Economist, Nov. 25, 1995 (in Packet)

Becker and Becker, pp. 72-74 (in Packet)

1. What happened to CEO compensation in the U. S. in the 1990s?
2. What happened to the overall distribution of income in the U.S. in the 1970s ñ 1990s?
3. What do you think will happen to the distribution of income in the coming decade?
4. What would you do to reduce poverty in America?