Economics 100 Description and Analysis of the Price System
Spring Term 2015
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Office Hours:
W: 2:30-4:00 p.m.
Th: 4:30-5:30 p.m.
F: 1:00-2:00 p.m.

Organizer: Vicky Liu
Email: <vickyliu@exchange.Princeton.EDU>

Lecture: T/Th 11:00 McCosh 50
(There are two lectures and one precept/class each week.)

Required Text: Baumol, W.J. and A. S. Blinder, Microeconomics, 12th edition, paperback or hardback.
(referred to below as B&B) If you have the 11th edition, that's okay too.
The text is available at Labyrinth Books or can be used in the library.

You are required to purchase a packet for the course. The packet is available from Pequod Copiers in the U-Store. The Packet has all the assignments for the semester.

As a source of current events, you are asked to read The Economist.
Several articles will be assigned from The Economist each week and you will be tested on the assigned articles. The Economist is available online for free for all Princeton students.
If accessing The Economist on-campus, please use this link:
http://www.economist.com/?sa_campaign=bulk/ieu/princetonuniversity/blank
If accessing The Economist off-campus, please use the link below to set up your computers with either of two options:
The Library offers two means of remote access, EZproxy and SRA.
http://library.princeton.edu/services/technology/off-campus-access

The PowerPoint slides used in lectures will be added to the course page under course materials on Blackboard on the WEB before each class.

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%
The purpose of the problem sets is to enhance your understanding of economics and to raise your analytical skills in general. Of course, they are also part of your preparation for exams. You are encouraged to discuss the problem sets with classmates (or anyone else), but the work you hand in must be your work. If you work together, then think about your answers and put them into your own words. Searching the WEB for former answer sheets is cheating. Getting help from tutors is OK, but be certain to work on the problem sets first so that you gain the needed analytical skills to perform on the exams. Any student caught cheating on any component of the course may receive a failing grade for the entire course. (I don’t expect to see this at Princeton, but lawyers tell me to say it).

For written assignments and additional readings and discussion questions, see the PRECEPT/CLASS ASSIGNMENTS section of this Course Outline.

LECTURE TOPICS AND READING ASSIGNMENTS FOR LECTURES

Please read the assignments before the lectures. (You will understand and enjoy the lectures much more if you come prepared. Being prepared is the best way to get your money’s worth.

Economics 100

Lectures

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<td>Comparative Economic Systems</td>
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<td>The Market Economy</td>
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<td>B&amp;B, 12th Ed., Chapter 4 Supply and Demand An Initial Look (Skim Chapters 1-3)</td>
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<td>Feb. 10, 12</td>
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<td>B&amp;B. 12th Ed., Chapter 5 Consumer Choice: Individual and Market Demand, include the Appendix</td>
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<td>The Economics of Crime (in Packet)</td>
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<td>The Firm and Its Goals</td>
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<td>B&amp;B, Chapters 7 Production, Inputs, and Costs: Building Blocks for Supply Analysis and 8 Output, Price, and Profits: The Importance of Marginal Analysis, include the Appendices</td>
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<td>Mar. 3, 5</td>
<td>The Firm and Industry under Perfect Competition</td>
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11 Mar. 10 Catch-up and review
Mar. 10 MIDTERM EXAM - Tuesday evening, March 10th at 7:30pm

12 Mar. 12 The Price System and the Case for Free Markets
B&B, Chapter 14 *The Case for Free Markets: The Price System*

Yes we have lecture on Thursday before spring break

13-14 Mar. 24, 26 Welfare Economics
H. Rosen, Public Finance,
Chapter 3 *Tools of Normative Analysis* (in Packet)

15 Mar. 31 Shortcomings of the Market Mechanism and Problems with Government Allocation
B&B, Chapter 15 *The Shortcomings of Free Markets*

16 April 2 Monopoly
B&B, Chapter 11 *Monopoly*

17 April 7 Between Competition and Monopoly
B&B, Chapter 12 *Between Competition and Monopoly*

18 April 9 Microeconomics of Innovation
B&B, Chapter 16 *The Markets Prime Achievement: Innovation and Growth*  
(B&B, Chapter 9 *Securities, Business Finance, and the Economy* will be covered in Precepts.)

19 April 14 Regulation and Antitrust
B&B, Chapter 13 *Limiting Market Power: Regulation and Antitrust*

20 April 16 Pricing the Factors of Production
B&B, Chapter 19 *Pricing the Factors of Production*

21-22 April 21, 23 Labor Markets and Wages
B&B Chapter 20 *Labor and Entrepreneurship: The Human Inputs*

23 April 28 Income Inequality
B&B, Chapter 21 *Poverty, Inequality and Discrimination*

24 April 30 The Environment
B&B, Chapter 17 *Externalities, The Environment, and Natural Resources*

Review Class During Reading Period

Thursday, May 7th 1:30-3:00 p.m.
Precept Assignments

Precepts met Thursdays, Fridays, and Mondays

The typical precept will consist of the following parts:
1. Solutions to the most difficult problems in that week’s 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 and be willing to share his or her opinions on the topic(s).)

February 5, 6, 9

Please read B&B Chapter 4 before precept.
“Alcohol Pricing: We wish you a merry(ish) Christmas,” The Economist, December 21st 2013 (in packet)

Discussion of Supply and Demand
1. What is the main point of “Alcohol Pricing: We wish you a merry(ish) Christmas”?
2. What factors shift demand?
3. What factors shift supply?
4. What are price ceilings and price floors?

February 12, 13, 16

First Problem Set Due

Discussion of Political Economy and price ceilings:
“Economic History: Smith’s Word,” The Economist, November 1st, 2013 (in packet)


1. What did Smith mean that private gain could yield social good?
2. Did Adam Smith emphasize that pure egoism is good for society?
3. What is the fundamental problem in choosing the output mix in a centrally controlled economy?
4. What Government functions did Smith agree with?
5. What problem did China have with price controls on drugs?
February 19, 20, 23

Second Problem Set Due

Discussion of the Economics of Education

“Charter Schools: Learning Moment” The Economist, April 30, 2014 (in packet)

Dobbie, Will and Roland Fryer, “Getting Beneath the Veil of Effective Schools: Evidence from New York City” NBER Working paper 17632 (in packet)

1. What are the pros and cons of charter schools?
2. Can high quality schools improve the outcomes of at-risk kids?
3. What factors improve learning?

February 26, 27, March 2

Third Problem Set Due

Discussion of Crime:

“Illegal drugs: The Great Experiment,” The Economist, February 23d, 2013 (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 did the study of willingness to cheat by former East Germans vs West Germans show? What is the likely source of the difference? (packet)
4. Should America be locking up so many people? (packet)
5. What are the main points in “Illegal drugs: The Great Experiment”? (packet)
6. What was Gary Becker’s model of crime?
7. What does James Wilson say about the application of the Becker model to recent crime rates? (packet)
8. Why is the crime rate falling? (packet)
March 5, 6, 9

Fourth Problem Set Due

Discussion of Marginal Cost Pricing:

B & B Chapter 8 *Output, Price, and Profits: The Importance of Marginal Analysis*


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? Why has road pricing languished? (packet)

MIDTERM EXAM TUESDAY MARCH 10, 7:30-9:30pm

MARCH 12, 13, 16 and March 19, 20, 23

NO REGULAR PRECEPTs – Spring Break
March 26, 27, 30

No problem set, but this week's lecture material is sophisticated. Spend some extra time understanding welfare economics.

Mid-terms returned

Discussion of Welfare Economics and Critiques of Mainstream Economics

“Behavioral Economics” from Wikipedia (packet)

1. Explain the 3 rules of Pareto Efficiency (Packet and lectures)
2. What concerns Piketty about the modern economy? (packet)
3. What is Bartlett’s main point in “Economics and Power”? (packet)
4. What is different from traditional economics and Behavioral Economics and Finance?

April 2, 3, 6

Fifth Problem Set Due

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

Discussion of when markets and government fail to be efficient

Carreyrou, John Christopher Stewart and Rob Barry, “Taxpayers Face Big Medicare Tab for Unusual Doctor Billings,” *Dow Jones Reprints*, June 9, 2014 (in packet)
“Cartels: Just one more fix,” *The Economist*, March 29th 2014 (in packet)

1. Should immigration rights be sold? (packet)
2. What is the point of “Taxpayers Face Big Medicare Tab for Unusual Doctor Billings”? (packet)
   Why is the delivery of medicine so inefficient in the US?
3. What is a cartel? Why are they formed?
4. Is the NCAA a cartel? Should college athletes be paid? Should they be paid for the use of their names or pictures?
5. What are Google’s problems with antitrust behaviors? (packet)
6. Discuss policies to reduce monopoly power. (packet)
April 9, 10, 13

There is no problem set.
Be prepared to discuss the material on corporate finance and innovation.

Discussion of Corporate Finance:

“Systemic Risk: Counterparty Controversy,” The Economist, May 12, 2012 (in packet)
Baumol & Blinder, Chapter 9, Securities, Business Finance and the Economy: The Tail that Wags the Dog?

April 16, 17, 20

Sixth Problem Set Due

Discussion of Consumer Protection and Regulation:

“Over-regulated America,” The Economist, February 18th, 2012 (in packet)
Viscusi, Vernon and Harrington, Economics of Regulation and Antitrust Pre-manufacturing Screening, p793-796 (in packet)
“Economic Regulation: Nudge nudge, think think,” The Economist, October 18, 2014 (in packet)

1. For the benefits of regulation to exceed the costs we need to look at the full costs.
What constitutes direct and indirect costs of regulation? What does The Economist think of US regulation? (packet)
2. How do free markets protect consumers?
3. Can the F.D.A. minimize Type I and Type II errors at the same time? (packet)
4. What is the main point of “Economic Regulation: Nudge nudge, think think” (packet)

April 23, 24, 27

Seventh Problem Set Due

Discussion of Labor Markets:

Cheremukhin, Anton, “Middle-Skill Jobs Lost in U.S. Labor Market Polarization,” Economic Letter, Dallas Federal Reserve, May 2014 (in packet)
“Race- Blind Affirmative Action: Identifying the disadvantaged,” The Economist, May 12, 2012 (in packet)
“Working hours: Get a Life,” The Economist, September 24, 2013 (in packet)
1. What is happening to middle skill jobs in America? (packet)
2. What evidence is there of gender gaps in jobs? (packet)
3. Should affirmative action be on race, ethnicity, gender or economic class? (packet)
4. How is CEO compensation set? Discuss CEO pay. (packet)
5. Discuss work life balance. (packet)

April 30, May 1 and May 4*

Eighth Problem Set Due

Discussion of the distribution of income and the distribution of wealth

Inequality and efficiency: The last Casualty of the Cold War, The Economist, April 23, 2014 (in packet)

1. What is happening to the U.S. distribution of Income? (packet)
2. Why is this happening?
3. What is happening to the distribution of wealth? (packet) Why do people care?

*May 4 is the first Monday of reading period. If you have a Monday precept and cannot make the May 4th date, then come to the Thursday, April 30th, or Friday May 1st precept.