

Grinnell College  
Economics 111.04  
Fall 2005

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*Office Hours:* Tues. 10 – 12; Thurs. 1:30 – 3:30  
Appointments for other times can be arranged by email

## **INTRODUCTION TO ECONOMICS**

This course offers an introductory treatment of economic theory with some discussion of policy applications and economic institutions. Most of the course can be divided into two broad segments: microeconomics and macroeconomics. Microeconomics analyzes the interactions of individual consumers (households) and producers (firms) in specific markets (e.g., the market for shoes or automobiles). A major theme of this section will concern the strengths and weaknesses of markets as a mechanism for coordinating the production and distribution of goods and services. Macroeconomics, on the other hand, focuses at the national level, examining the determination of important national variables, such as the level and rate of growth of output (gross domestic product, GDP), the rate of inflation, the level of unemployment, as well as flows of imports and exports and the balance of trade. A major theme of the course will concern the potential for government policy to improve or hinder economic performance at either the microeconomic or macroeconomic level. A few key questions: should the government try to reduce pollution or income inequality; should the government try to control inflation or restrict international trade; should the government try to reduce unemployment?

## **READINGS**

### At Book Store:

N. Gregory Mankiw, *Principles of Economics*, 3<sup>rd</sup> Edition, Thomson Southwestern, 2004.

### On e-Reserve:

Robert Heilbroner, *The Worldly Philosophers* (WP), Chapters 2, 3 and 9.

Articles by Marc Breslow, Jim Campen in *Current Economic Issues*

Tregarthen, Timothy and Libby Rittenberg, *Macroeconomics*, (TR), Chapter 13

Several additional readings may be placed on reserve in the library.

## **GRADING**

There will be three one-hour exams and a final exam along with nine problem sets, which must be turned in on time by the dates specified. There also will be several group presentations. Problem sets and class participation, including attendance, and presentations count for 25% of the semester grade, and exams count for the remaining 75%, with the final counting as two midterms (30%). I reserve the right to assign additional short (one page) papers or possibly a few quizzes.

## COURSE OUTLINE

### **I. INTRODUCTION: Week 1, Week 2 part.**

1. What is economics? Basic economic principles; How economists approach problems and economic models; scarcity, choice, and the production possibilities frontier.  
*Mankiw, Chapters 1 and 2*
2. The development of market economies  
*WP Chapter 2*  
**Group Presentation**
3. Gains from trade: absolute and comparative advantage.  
*Mankiw, Chapter 3.*

### **II. MICROECONOMICS**

#### **A. Theory of Supply and Demand: Weeks 2-3**

1. Demand, supply, and market equilibrium.  
*Mankiw, Chapter 4; WP Chapter 3*  
**Problem Set One Due Monday, Sept. 5**  
**Group Presentation**
2. Disequilibrium, price elasticity of demand, consumer wants and the law of demand.  
*Mankiw, Chapter 5*
3. Applications: Price floors, ceilings and taxes  
*Mankiw, Chapter 6*  
**Problem Set Two Due Wed., Sept. 14**

#### **B. Costs of Production**

Production, costs, and market supply.  
*Mankiw, Chapter 13, 14, beginning*  
**Problem Set Three Due Wed. Sept. 21**

**\*\*\*FIRST HOUR EXAM Wednesday, Sept. 21\*\*\***

#### **C. Market Structure and its Relation to Market Outcomes: Weeks 5 - 7.**

1. The model of pure competition.  
*Mankiw, Chapter 14*
2. Imperfect competition and market power: monopoly, oligopoly, and monopolistic competition;  
*Mankiw, Chapters 15, and selections from 16 and 17*  
**Problem Set Four Due Fri., Oct. 7**  
**Group Presentation**

#### **D. Labor Markets, Income Distribution, Market Failure, Government Policy: Weeks 7-8.**

1. Markets as coordinating mechanisms and market failure: externalities, public goods and common pool resources  
*Mankiw, Chapters 10-11*
2. Labor markets, poverty and inequality  
*Mankiw, Chapter 18 and 20, selections*  
On *e-reserve*: “The Community Reinvestment Act: A Law that Works”  
“The Racial Divide Widens”

**Problem Set Five**  
**Group Presentation**

**\*\*\* SECOND HOUR EXAM Friday, Oct. 14 \*\*\***  
**Set your break plans accordingly!!**

**III. MACROECONOMICS: Weeks 9 - 13**

1. Macroeconomic variables, goals and measurement.  
*Mankiw: Chapters 23-24*  
*e-reserve*: “Is the U.S. Making Progress?”
2. Long-run Growth  
*Mankiw, Chapter 25*
3. Aggregate Demand and Supply.  
*Mankiw Chapter 33*

**Problem Set Six**

4. Money, banks, the Federal Reserve and monetary policy.  
*Mankiw, Chapters 26, 29, 30*
5. John Maynard Keynes; equilibrium output and expenditure model  
*T&R Chapter 13;*  
*WP Chapter 9, “The Heresies of John Maynard Keynes,”* (in course packet)

**Problem Set Seven**  
**Group Presentation**

6. Fiscal policy, business cycles, and budget deficits.  
*Mankiw Chapter 34*

**Problem Set Eight**

**\*\*\*THIRD HOUR EXAM Wed. Nov. 30 \*\*\***

**IV. Final Topics**

1. International Trade, Comparative Advantage and Net Exports  
*Mankiw, Chapters 9, 31*  
**PROBLEM SET NINE DUE.**

**\*\*\*\* FINAL EXAM: Thursday, Dec. 15, 2:00 p.m. \*\*\*\***  
Make your plans accordingly!