

INTERNATIONAL UNIVERSITY OF JAPAN

Graduate School of International Relations

Academic Year: 2016/2017

Term: Fall

Course	Course code <b>DCC5480</b>	Course title <b>Essentials of Economics</b>	
Name of Instructor	<b>N. S. Cooray</b>		<b>Credit Number: 2</b>
Instructor's contact Information	Office# 332 and Tel 428	Office Hours 14:30-16:30	E-mail: cooray@iuj.ac.jp
Class Schedule Day / Time	<b>Wednesday 10:30-12:00 and 13:00-14:30</b>		

**Course Description:**

This course examines essential concepts and tools of economics that can be utilized to analyse private choice, public policy, and real-world issues and controversies. It is also important to understand in the current globalised economic environment how national economy is integrated to the world through markets. The course concentrates the following four broader topics: markets and government; macroeconomic policies in open economies; international trade and finance; and growth, inequality and poverty. An attempt is made throughout the course to bring the subject alive and providing students with insight into the economy.

**Learning Objectives:**At the end or during the course students will be able:

- (a) To acquire knowledge in subject of proposed study;
- (b) To conceptualise the vital concepts and issues of microeconomics and macroeconomics;
- (c) To grasp new concepts and reasons analytically;
- (d) To syntheses of ideas, views and evidence; and
- (e) To apply of economic theories in business and international relations decision making.

**Career Relevance:** Students who would like to work and are working in government, private sector, funding organization and international organization need to know how people make decision and interact with one other. This course provides necessary tools to know how decisions are made.

Course Context or Rationalization: IR students have to take International Economic System, International Political Economy and other economics related courses, therefore, essentials of economics provides necessary background/foundation for those students who will be taking those courses in winter, and springs. This course also can be good foundation course for PMPP students who take microeconomics.

Delivery Methods:

- (a) Class room lectures;
- (b) In class discussion;
- (c) Presentation;
- (d) Reading assignments from Internet, books and journals;
- (e) Homework assignments and group discussions; and
- (f) Case studies.

Evaluation of students' performance will be based upon the followings:

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|--------------------------------|-----|
| (a) Quizzes                    | 10% |
| (b) Homework assignments (3-5) | 10% |
| (c) Case presentation          | 10% |
| (d) Mid-term examination       | 20% |
| (e) Final examination          | 50% |

Prerequisite:

The course is open to any IUJ students. No prior knowledge in economics is required for this course but **strong desire and genuine effort to learn are prerequisites.**

Textbook(s)

Recommended text book (students are not required to buy)  
Mankiw, N. Gregory (2015), Essentials of Economics, Seventh International Edition, South-Western Cengage Learning

Reference books/Journal Articles:

**(Reference placed on reserve at the library:)**

Heyne, Paul; Peter Boettke; and David Prychitko (2010), The Economic Way of Thinking, (12<sup>th</sup> edition), Pearson International Edition.

Hubbard, R. Glenn and Antony Patrick O'Brien (2009), Essentials of Economics (Second Edition), Pearson International Edition

Schiller, Bradley R. (2009), Essentials of Economics, Seventh Edition, McGraw-Hill

Sloman, John (2004), Essentials of Economics, Third Edition, Prentice Hall

Thomas, Christopher R. and S. Charles Maurice (2008), Managerial Economics (9<sup>th</sup> edition), International Edition, McGraw Hill

	<p>Gwartney, James D.; Richard L. Stroup; Russell S. Sobel; and David A. Macpherson (2009), <u>Economics: Private and Public Choices</u>, Twelfth Edition, South-Western Cengage Learning.</p> <p>Student will be provided with a small lecture note (power point slides) in the class or email in advance. However, additional reading will be assigned when it is necessary.</p>
<p>Class Outline</p>	<p>I. <b>First Week: Course Introduction and The Ten Principles of Economics</b></p> <p>Objectives of this lecture are to address major concerns of beginners of economics. Among other issues we discuss: (1) What kinds of questions does economics address? (2) What are the principles of how people make decisions? (3) What are the principles of how people interact? and (4) What are the principles of how the economy as a whole works. We also discuss major tools that economists use for their economic analysis.</p> <p><b>Recommended readings:</b></p> <p>Mankiw, N. G. (2012). Ten Principles of Economics. In <i>Essentials of Economics</i> (6 ed., pp. 3-20). South-Western Cengage Learning.</p> <p>Heyne, P., Boettke, P., &amp; Prychitko, D. (2010). The Economic Way of Thinking. In <i>The Economic Way of Thinking</i> (12 ed., pp. 19-35). Pearson Education International.</p> <p><b>Additional readings:</b></p> <p>Bhagwati, J. (2011). Market and Morality. <i>American Economic Review: Papers and Proceedings</i> , 101 (3), 162-165.</p> <p>Friedman, B. M. (2011). Economics: A Moral Inquiry with Religious Origins. <i>American Economic Review</i> , 101 (3), 166-170.</p> <p>Gwartney, J. D., Stroup, R. L., Sobel, R. S., &amp; Macpherson, D. A. (2009). The Economic Approach. In <i>Economics</i> (12 ed., pp. 27-52). South-Western Cengage Learning.</p> <p>Shiller, R. J., &amp; Shiller, V. M. (2011). Economists as Worldly Philosophers. <i>American Economic Review: Papers and Proceedings</i> , 101 (3), 171-175.</p>

## **2. Second Week: Thinking Like an Economist**

The purpose of this lecture is to familiarize students with how economists approach economic problems. With practice, students will learn how to approach similar problems in this dispassionate systematic way. They will see how economists employ the scientific method, the role of assumptions in model building, and the application of two specific economic models. Students will also learn the important distinction between two roles economists can play: as scientists when we try to explain the economic world and as policymakers when we try to improve it.

### **Recommended readings:**

Mankiw, N. G. (2012). Thinking Like an Economist. In *Essentials of Economics* (6 ed., pp. 21-48). South-Western Cengage Learning.

Hubbard, R. G., & O'Brien, A. P. (2009). Economics: Foundations and Models. In *Essentials of Economics* (2 ed., pp. 1-35). Pearson Education International.

### **Additional readings:**

Heyne, P., Boettke, P., & Prychitko, D. (2010). Efficiency, Exchange, and Comparative Advantage. In *The Economic Way of Thinking* (12 ed., pp. 37-60). Pearson Education International.

### **Paper discussion and presentations by the learning partners:**

## **Markets and Government**

## **3. Third Week: Supply, Demand, and Market Equilibrium**

This lecture aims to establish the model of supply and demand. The model of supply and demand is the foundation for the discussion for the remainder of the lectures. For this reason, time spent studying the concepts in this lecture will return benefits to you throughout your study of economics. This chapter is the most important chapter in the text.

### **Recommended readings:**

Mankiw, N. G. (2012). The Market Forces of Supply and Demand. In

*Essentials of Economics* (6 ed., pp. 65-87). South-Western Cengage Learning.

Heyne, P., Boettke, P., & Prychitko, D. (2010). Supply and Demand: A Process of Coordination. In *The Economic Way of Thinking* (12 ed., pp. 115-133). Pearson Education International.

**Additional readings:**

Thomas, C. R., & Maurice, S. C. (2008). Demand, Supply, and Market Equilibrium. In *Managerial Economics* (9 ed., pp. 32-81). Singapore: McGraw-Hill International Edition.

Akerlof, G. A., & Shiller, R. J. (2009 ). *Animal Spirits: How Human Psychology Drives the Economy, and Why It Matters for Global Capitalism*. Princeton University Press: Princeton and Oxford.

Stiglitz, J. E. (2010). *Free Fall: America, Free Markets, and the Sinking of the World Economy*. New York and London: W. W. Norton and Company.

**Paper discussion and presentations by the learning partners:**

**4. Fourth Week: Markets and the Role and Policies of Government**

In the last week we dealt with supply and demand and how markets work. In today's lecture we focus on how government policies affect the market outcome. Price controls set the maximum or minimum price at which a good can be sold while a tax creates a wedge between what the buyer pays and what the seller receives. These policies can be analyzed within the model of supply and demand. We will find that government policies sometimes produce unintended consequences. We also aim to develop welfare economics-the study of how the allocation of resources affects economic well-being. Is the equilibrium price and quantity in a market the best possible solution to the resource allocation problem, or is it simply the price and quantity that balance supply and demand? Class participants will discover that under most circumstances the equilibrium price and quantity is also the one that maximizes welfare.

**Recommended readings:**

Mankiw, N. G. (2012). Supply, Demand, and Government Policies. In *Essentials of Economics* (6 ed., pp. 111-134). South-Western Cengage Learning.

Mankiw, N. G. (2012). Consumers, Producers, and the Efficiency of Markets. In *Essentials of Economics* (6 ed., pp. 135-154). South-Western Cengage Learning.

**Additional readings:**

Heyne, P., Boettke, P., & Prychitko, D. (2010). Markets and Government. In *The Economic Way of Thinking* (12 ed., pp. 271-297). Pearson Education International.

Hayek, F. A. (1945), The Use of Knowledge in Society, *The American Economic Review*, 35 (4): 519-530

**Paper discussion and presentations by the learning partners:  
(Case Studies)**

- (a) Lines at the Gas Pump, Mankiw (2012) Chapter 6, p. 114
- (b) Rent Control in the Short Run and the long Run, Mankiw (2012) Chapter 6, P. 115
- (c) The Minimum Wage, Mankiw (2012) Chapter 6, P. 117
- (d) Can Congress Distribute the Burden of a Payroll Tax? Mankiw (2010) Chapter 6, p. 124
- (e) Who Pays the Luxury Tax? Mankiw (2012) Chapter 6, p. 127
- (f) Should There Be a Market in Organs? Mankiw (2012) Chapter 7 on “Consumers, Producers, and the Efficiency of Markets”, p. 149

**Internet Resource:**

Keynote address by Professor Lawrence Summers on “Education and development: The Role of Higher Education” (accessed on 28 October 2009.  
[http://www.crawford.anu.edu.au/research\\_units/ear/video/video.php](http://www.crawford.anu.edu.au/research_units/ear/video/video.php)

## 5. Fifth Week: The Economics of the Public Sector

In this lecture we address: (a) externalities- the uncompensated impact of one person's actions on the well-being of a bystander; (b) public goods and common resources, and (c) a group of goods that are free to the consumer. Different sources of externalities and a variety of potential cures for externalities are addressed. Markets maximize total surplus to buyers and sellers in a market. However, if a market generates an externality (a cost or benefit to someone external to the market) the market equilibrium may not maximize the total benefit to society. We will see that while markets are usually a good way to organize economic activity, governments can sometimes improve market outcomes. When goods are free, market forces that normally allocate resources are absent. Therefore, free goods, such as playgrounds and public parks, may not be produced and consumed in the proper amounts. Government can potentially remedy this market failure and improve economic well-being.

### Recommended readings:

Mankiw, N. G. (2012). Externalities. In *Essentials of Economics* (6 ed., pp. 195-215). South-Western Cengage Learning.

Mankiw, N. G. (2012). Public Goods and Common Resources. In *Essentials of Economics* (6 ed., pp. 217-232). South-Western Cengage Learning.

Heyne, P., Boettke, P., & Prychitko, D. (2010). Externalities and Conflicting Rights. In *The Economic Way of Thinking* (12 ed., pp. 245-269). Pearson Education International.

### Additional readings:

Parry, I. W., Walls, M., & Harrington, W. (2007). Automobile Externalities and Policies. *Journal of Economic Literature*, XLV, 373–399.

**Paper discussion and presentations by the learning partners:  
(Case Studies)**

**Mid-Term Examination**

## Macroeconomic Policies in Open Economies

### 6. Sixth Week: Production and Growth

This is the first lecture of the second half of the course which focuses on the macro economy. The objectives of this lecture are: (a) to provide participants with an understanding of the measurement and the use of gross domestic product (GDP). GDP is the single most important measure of the health of the macro economy. Indeed, it is the most widely reported statistic in every economy; (b) to show learning partners how to generate a price index and to explain them how to employ a price index to compare figures from different points in time and to adjust interest rates for inflation. In addition, they will learn some of the shortcomings of using the consumer price index as a measure of the cost of living; and (c) to examine the long-run determinants of both the level and the growth rate of real GDP per person. Along the way, we will discover the factors that determine the productivity of workers and address what governments might do to improve the productivity of their citizens. Prior to this lecture, learning partners are supposed to read chapter 15 titled “Measuring a Nation's Income” and chapter 16 titled “Measuring the Cost of Living” of Mankiw.

#### Recommended readings:

Mankiw, N. G. (2012). Measuring a Nation's Income. In *Essentials of Economics* (6 ed., pp. 307-327). South-Western Cengage Learning.

Mankiw, N. G. (2012). Measuring the Cost of Living. In *Essentials of Economics* (6 ed., pp. 329-344). South-Western Cengage Learning.

Mankiw, N. G. (2012). Production and Growth. In *Essentials of Economics* (6 ed., pp. 347-370). South-Western Cengage Learning.

#### Additional readings:

Heyne, P., Boettke, P., & Prychitko, D. (2010). Measuring the Overall Performance of Economic Systems. In *The Economic Way of Thinking* (12 ed., pp. 299-328). Pearson Education International.

Fogel, R. W. (1999). Catching up with the Economy. *The American Economic Review*, 89(1), 1-21.

Kremer, M. (1993). Population Growth and Technological Change One Million B. C. to 1990. *The Quarterly Journal of Economics*, 108(3), 681-716.

**Paper discussion and presentations by the learning partners:**

### **7. Seventh Week: Saving, Investment, and the Financial System**

In the previous discussion, we found that capital and labour are among the primary determinants of output. For this reason, this week's lecture addresses the market for saving and investment in capital. The purpose of the lecture is to show how saving and investment are coordinated by the loanable funds market. Within the framework of the loanable funds market, we are able to see the effects of taxes and government deficits on saving, investment, the accumulation of capital, and ultimately, the growth rate of output.

#### **Recommended readings:**

Mankiw, N. G. (2012). Saving, Investment, and the Financial System. In *Essentials of Economics* (6 ed., pp. 371-391). South-Western Cengage Learning.

Mankiw, N. G. (2012). The Basic Tools of Finance. In *Essentials of Economics* (6 ed., pp. 393-408). South-Western Cengage Learning.

**Paper discussion and presentations by the learning partners:**

### **8. Eighth Week: Unemployment and Labour Market: Concepts and Issues**

The purpose of this lecture is to introduce the labour market. We will see how economists measure the performance of the labour market using unemployment statistics. We will also address a number of sources of unemployment and some

policies that the government might use to lower certain types of unemployment.

**Recommended readings:**

Mankiw, N. G. (2012). Unemployment. In *Essentials of Economics* (6 ed., pp. 409-432). South-Western Cengage Learning.

Mankiw, N. G. (2012). The Monetary System. In *Essentials of Economics* (6 ed., pp. 435-458). South-Western Cengage Learning.

**Additional readings:**

Yu, Wei-hsin (2002). Jobs for Mothers Married Women's Labor Force Reentry and Part-Time, Temporary Employment in Japan. *Sociological Forum*, 17 (3), 493-523.

**Paper discussion and presentations by the learning partners:**

**Case Study:**

- (a) Labour-Force Participation of Men and Women in the U.S. Economy (Mankiw, 2012: p. 413-4)
- (b) Henry Ford and the Very Generous \$5-a-Day Wage (Mankiw, 2012: p. 528-9)

**9. Ninth Week: How Fiscal and Monetary Policy Influence the Economy**

This lecture focuses on short-run fluctuations in the economy around its long-term trend. We introduce aggregate demand and aggregate supply and show how shifts in these curves can cause recessions. We also focus on how policymakers use the tools of monetary and fiscal policy to influence aggregate demand. Students will learn about some of the sources for shifts in the aggregate-demand curve and the aggregate-supply curve and how these shifts can cause recessions. They also learn actions policymakers might undertake to offset recessions.

**Recommended readings:**

Mankiw, N. G. (2012). Aggregate Demand and Aggregate Supply. In *Essentials of Economics* (6 ed., pp. 487-523). South-Western Cengage Learning.

Mankiw, N. G. (2012). The Influence of Monetary and Fiscal Policy on Aggregate Demand. In *Essentials of Economics* (6 ed., pp. 525-551). South-Western Cengage Learning.

**Additional readings:**

Buchanan, James M. (1954). Social Choice, Democracy, and Free Markets: *The Journal of Political Economy*, 62 (2), pp. 114-123.

**Paper discussion and presentations by the learning partners:**

**International Trade and Finance**

**10. Tenth Week: International Trade, Finance and the Foreign Exchange Market**

Trade between nations involves the exchange of currencies as well as the exchange of goods. This exchange of currencies gives rise to a special market—the foreign exchange market. In this chapter, we analyze the major factors affecting the price of a nation's domestic currency relative to other currencies (the exchange rate) on the foreign exchange market. We analyze the operation of a flexible exchange rate system. The impact of changes in the growth of income, inflation rates, and interest rate on the foreign exchange market are considered. The effects of monetary and fiscal policy under a flexible exchange rate system are discussed. We also provide a discussion of the other two types of exchange-rate regimes: (1) fixed-rate, unified currency, and (2) pegged exchange rates. The discussion includes an exploration of balance of payments accounts—the classification of debit and credit items in the balance of payments accounts. The major purpose of this chapter is to promote student understanding of the special problems that arise when goods are exchanged by trading partners who use different currencies.

**Recommended readings:**

Gwartney et al. (2009), Chapter 17, pp. 370-339

Blanchard (2009), Chapter 18-20, pp. 399-442

**Final Examination**