

Prof. Bryan Caplan

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Econ 103

Fall, 2000

Microeconomics Syllabus

Course Focus:

The course provides an introduction to modern microeconomics. It covers the fundamentals of economic theory, supply and demand, the theory of the firm, competition and monopoly...

Prerequisites:

I assume that you are familiar with graphing and algebra.

Texts:

Most of the course material will consist in detailed notes that will be handed out in class. There will also be required readings in each of the following:

James Gwartney and Richard Stroup, *Introduction to Economics: The Wealth and Poverty of Nations*

Frederic Bastiat, *Economic Sophisms*

Frederic Bastiat, *Selected Essays on Political Economy*

David Friedman, *Hidden Order*

Grading and Exams:

There will be two midterms and a final exam - essentially, an exam for each Part of the course. The midterms count 20% each; the final exam is 40%; homework counts for the remaining 20%. These weights are fixed - improvement on later exams will not retroactively raise your grades on earlier exams.

There is no formal grade for participation, but if you are one of the students who (in my judgment) contributes most to the quality of class discussion you will be "bumped up" a fraction grade (e.g. B- to B).

Homework:

There will be approximately six homework assignments during the semester. Depending upon how good a job you do, your homework will receive a check-plus (4 points), a check (3 points), or a check-minus (2 points) if you turn it in; otherwise you receive 0 points. Late homework loses one point. *Late homework is no longer accepted after I pass out my suggested answers for a given assignment.*

Office Hours

The best way to contact me is by email at bcaplan@gmu.edu. Many questions and requests can be satisfied by going to my homepage at <http://www.gmu.edu/departments/economics/bcaplan>. My office is in 8 Carow Hall; my office number is 3-2324. My official office hours are TT 3:00-4:30, but you can also schedule an appointment or just drop by and see if I'm available.

Tentative Schedule:

My proposed schedule for the semester follows. If it proves too ambitious, I will try to *simply say less about each topic* rather than cut the topics for the final weeks.

PART I: Fundamentals of Economics

Weeks 1-2: The Economic Way of Thinking

- Economics as social science
- Economists' basic analytical framework: preferences and constraints
- The nature of preferences: human selfishness
- Intentions and results
- Exceptions to selfishness and Tullock's law
- Scarcity: the origin of constraints
- Scarcity and opportunity costs
- Opportunity costs and economic profit
- Scarcity and a brief history of progress
- Incentives: thinking strategically about your constraints
- Incentives and marginal analysis
- The principal of diminishing marginal utility
- Marginal analysis and the indifference principal

Readings:

Gwartney and Stroup, chapter 1

Bastiat, *Economic Sophisms*, (First Series) chapters 1-3

Bastiat, *Selected Essays on Political Economy*, chapter 1: "What Is Seen and What Is Not Seen"

Week 3: Trade and Property Rights

- Selfishness and cooperation
- Trade as mutual benefit
- Exploitation fallacies: better-off versus well-off
- Paternalism and trade
- Trade and reciprocal altruism
- Trade as technology
- Property rights as a precondition of trade
- Property rights as incentives for production and maintenance
- The tragedy of the commons

Readings:

Gwartney and Stroup, chapter 2

Landsburg, *The Armchair Economist*, chapter 21: "The Iowa Car Crop"

Weeks 4-5: Supply and Demand

- Markets and trade
- Observed markets and conceptualized markets
- Partitioning sellers and buyers: supply and demand
- Quantity, price, and the axes
- The law of demand
- The law of supply
- Market forces and equilibrium price

- Demand shifts
- Supply shifts
- Shifts versus movements along a curve
- Elasticity
- The inter-relatedness of markets
- The effect of price ceilings
- The effect of price floors
- Entry and exit

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Readings:

Gwartney and Stroup, chapters 3-4

MIDTERM #1

PART II: Applications of Supply and Demand

Week 6: Taxation and the Concept of Efficiency

- The concept of incidence
- Taxation analyzed from suppliers' viewpoint
- Taxation analyzed from demanders' viewpoint
- Transfers versus deadweight losses

- Deadweight losses and efficiency
- The many margins of tax avoidance
- Example: luxury taxes
- Example: income taxation and the Laffer curve

Readings:

Landsburg, *The Armchair Economist*, chapter 7: "Why Taxes are Bad: The Logic of Efficiency"

Week 7: Housing Markets, Credit Markets, and Price Controls

- Housing demand
- Housing supply
- Shifts in housing demand and housing supply
- Rent control: short-run effects
- Rent control: long-run effects
- Housing quality and rent control
- Demand for credit
- Supply of credit
- Default risk
- Liquidity
- Shifts in the supply and demand for credit
- Usury laws and loan-sharking
- Bankruptcy laws

Readings:

David Friedman, *Hidden Order*, chapter 17

Week 8: Labor Markets and Labor Regulation

- Labor demand and marginal productivity
- Labor supply and the labor/leisure trade-off
- Shifts in labor demand and labor supply
- Minimum wage laws
- Firing and layoff restrictions
- Unions
- Competitive labor markets and discrimination

Readings:

Gwartney and Stroup, chapter 9

Week 9: Quality Regulation

- Quality competition
- Quality regulation
- Prohibition
- Black markets and quality

Readings:

David Friedman, *Hidden Order*, chapter 7

Week 10: Information Economics

- Probability
- Search theory
- Advertising
- Asymmetric info and adverse selection
- Insurance markets and moral hazard
- Signaling

Readings:

None

MIDTERM #2

PART III: Market Failure versus Government Failure

Weeks 11-12: Monopoly and Competition

- Bertrand competition
- Government as a source of monopoly
- Economies of scale

- Collusion
- Predation
- Antitrust

Readings:

Gwartney and Stroup, chapters 7-8

David Friedman, *The Machinery of Freedom*, chapters 6-7

Week 13: Externalities I: Market Failure

- Return to the tragedy of the commons
- Negative externalities (aka "public bads")
- Ex: Pollution
- Positive externalities (aka "public goods")
- Ex: Defense
- Bad but popular examples
- Good but unpopular examples
- Externalities, efficiency, and fairness
- Coase, property rights, and externalities
- Regulation versus tradeable permits

Readings:

Gwartney and Stroup, chapter 20

David Friedman, *Hidden Order*, chapter 17

Week 14: Externalities II: Government Failure

- Externalities generalized
- Externalities and rational ignorance
- The consequences of rational ignorance
- Externalities and rational irrationality
- The consequences of rational irrationality
- Markets versus government: the comparative institutions approach

Readings:

Gwartney and Stroup, chapters 22

David Friedman, *Hidden Order*, chapter 18

Bryan Caplan, "The Logic of Collective Belief"

Week 15: Some Modest Proposals

- Legalize baby-selling
- Privatize national parks
- Make employee/borrower/consumer rights waivable options
- Legalize drugs
- Eliminate subsidies to education
- Restrict the franchise

Readings:

None