**Government/Economics 367**

**Money, Markets and Economic Policy**

**Fall, 2021**

**Mondays and Wednesdays: 1:30-2:45**

**Horizon Hall 2008**

**Professor: Steven Pearlstein, Robinson Professor of Public Affairs**

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 **Office Hours: Mon & Wed, 12-1**

**COURSE DESCRIPTION:** This course introduces basic economic concepts and principles by applying them to the fundamental issues facing the U.S. and global economies. We will explore the way markets work, the reasons they sometimes fail and the role of government policy in dealing with those failures. Topics include productivity and economic growth, recessions and inflation, the rationale for government regulation, the roles of large and small businesses, taxes, health care, globalization, income inequality and financial crises, with an emphasis on market structure, social institutions and the not-always rational behavior of investors and consumers.

The course is aimed at non-economics majors seeking the economic literacy necessary to do their jobs, manage their lives, understand recent events and participate intelligently as citizens in a democracy. The aspiration of the course is to demystify economics, translate it into conversational English and apply it to real world policy problems. There will be very little math involved. The only prerequisites are a curious mind, an appreciation of critical thinking and a willingness to attend class and do the generous amount of assigned reading.

A companion follow-on course, Govt. 368, is offered in the spring and introduces the tools and quantitative methods used by economists to apply and analyze the principles introduced in this course. The textbook will be the same.

**CLASS SESSIONS:** The course is organized around 14 fundamental questions about economics that are relevant today. Generally, each question will be addressed during two class sessions. The first of the two sessions will focus on an explanation of the basic economic principles and concepts that are necessary to consider the question. The second session will be focused more on answering the broad question using those principles and concepts.

Students will be expected to attend all classes having done the reading for the day. Although much of the course involves a lecture format, there will be class discussions and give-and-take with the professor at various points during each lecture. Students may be called on randomly to participate. You are invited to ask questions or make comments anytime during lectures—just raise your hand.

At the beginning of each session, students should pick up their name cards from the front of the room and return them there at the end of each class session.

**GROUP DISCUSSIONS:** From time to time, the class will break up into pre-arranged discussion groups for 10-15 minutes. A member of each group will then report its conclusions to the full class. Please let Heejoo know on the first day of class if there are other students you would like to have in your discussion group. Group assignments will be posted on Blackboard after the first week of class, under the Syllabus tab.

Over time, these discussion groups will develop their own dynamic and personalities. That’s a good thing. You may also find the groups useful for sharing notes and studying together before the midterm and the final. Each group will be assigned the name of an important economist along with its own meeting room on Blackboard Collaborate, which will be available 24-7 for group members to communicate outside of the classroom. At its first meeting, each group should select someone to serve as its initial moderator and spokesperson and another as its official note-taker. These roles can be passed around to others as the semester progresses.

**COURSE EVALUATION:** There will be a midterm exam and a final exam. Both will require familiarity with readings and material covered in class, along with ability to apply economic concepts and reasoning in essay answers. You may bring the equivalent of up to 5 (one-sided, double-spaced) pages of typed notes when taking the mid-term, and 10 pages to the final exam.

**There will also be a short quiz each week at the beginning of one of the class sessions.** The quizzes have only one purpose: to determine whether you have done the assigned reading and understand it. If you have done the reading, quizzes will be easy. If not, you will find them frustrating. The two worst quiz scores (including any missed quizzes) will be dropped in calculating grades. There will be no makeup quizzes.

Final grades will be determined on the basis of 500 points based on the following criteria:

Quizzes 20% 100 points

 Class Participation/Group Work 20% 100 points

 Midterm 25% 125 points

 Final 35% 175 points

**BOOKS AND COURSE MATERIALS:**

**Warning: The reading load for this course is heavier than for most Mason courses.** The tradeoff (a word you will be hearing a lot in this course) is that there are no papers. The heaviest reading is in the first weeks, so you may want to get a head start on the reading in August. Please note there is even a reading assignment for the first class session, which are available on Blackboard under Course Content, the Introductory module.

The textbook for the course **Principles of Economics (9th Edition, Cengage) by Gregory Mankiw** a professor at Harvard University and a former chairman of the Council of Economic Advisers in the George W. Bush White House. Note that we are using the latest edition, the 9th edition., which is available from the GMU bookstore and from online sellers in print or in e-book format.

 Because this isn’t a textbook-driven course, the chapters in the textbook don’t correspond to the organization of the syllabus. As a result, we will be jumping around the textbook quite a bit. You need not bother with the appendices and problem sets that come at the end of chapters. You should, however, make sure you understand the relevant key concepts listed at the end of each chapter.

Although I have tried to avoid it, there will be times when the assigned textbook reading goes into more detail than is required for this course, or focuses on equations or complicated supply-demand graphs. Don’t get hung up on these – if you find them too difficult, just skip over them. The textbook reading is meant to provide you with an initial introduction to the key economic concepts and principles that will be expanded on during lectures and discussions. The textbook reading itself, however, will not be discussed in class.

In addition to the textbook, there are three other books that are required reading, all of which are available at the GMU bookstore and from online sellers:

**The Undercover Economist**, by Tim Harford, (Random House, paperback). This is a breezy, popular book on economics that deals with many of the topics covered in the course.

**Open: The Progressive Case for Free Trade, Immigration and Global Capital,** by Kimberly Clausing (Harvard University Press, paperback).This is an easy-to-understand defense of globalization by a respected academic economist.

**Predictably Irrational: The Hidden Forces That Shape Our Decisions**, by Dan Ariely (revised and extended, Harper Perrenial, paperback). This popular book offers a fun and accessible introduction to behavioral economics by one of its best-known practitioners.

For many units, the assigned reading will also include articles and reports that can either be found online or through e-reserve, which can be accessed through Blackboard (Click on Course Content in left hand menu. The reading material for each weekly unit, or module, has been grouped together.). **These shorter readings** **are not optional or supplementary. They are as integral to the course—and to your grade on quizzes and exams—as the books.**

For one class, your assignment will be to watch a recent and very entertaining movie, *The Big Short,* about the 2008 financial crisis, based on the best-selling book by Michael Lewis.

**CLASS SCHEDULE**

**Aug. 23 (M)** **Introduction and Overview: Why Study Economics?**

 Tradeoffs, scarcity, opportunity cost, cost-benefit, sunk costs, marginal thinking

 Principles of Economics, Ch. 1 and 2

 Undercover Economist, Ch. 1 (e-reserve)

**Aug 25 (W)** **Why Are Some Nations Rich and Others Poor?**

 Productivity, exchange and specialization, comparative advantage, natural endowments, Malthusian trap, industrial revolution, savings and investment, technological progress, physical capital, human capital, rule of law, role of institutions, inclusive v. extractive economic systems

 Principles of Economics Ch. 3, 23, 25

 Undercover Economist, Ch. 8

**Aug. 30 (M)** **Rich/Poor continued**

*Why Nations Fail*, Aaron Acemoglu and James Robinson, Ch. 7 (e-reserve)

*White Man’s Burden*, William Easterly, Ch. 1 (e-reserve)

**Class Discussion: How China Got Rich**

**Sept. 1 (W)** **Why Are Competitive Markets the Best Way to Organize Economic Activity?**

 Supply and demand, reservation price, consumer and producer surplus, complements and substitutes, Pareto equilibrium, shifting supply/demand curves, “invisible hand,” price controls, failure of communism

 Principles of Economics, Ch. 4, 6 (pp. 109-118 only) and 7

**Sept. 6 (M)** **Labor Day – No Classes**

**Sept. 8 (W)** **Competitive Markets, continued**

 Undercover Economist, Ch. 3 and 10

 **Class Discussion: What is Greed?**

**Sept. 13 (M)** **Why Do Markets Sometimes Fail to Maximize Welfare?**

 Positive and negative externalities, public and common goods, rival and excludable goods, free riders, tragedy of the commons, Coase theorem, prisoner’s dilemma, positional arms races, game theory, Nash equilibrium

 Principles of Economics, Ch. 10

 Undercover Economist, Ch. 4

 **Group Discussion: Fixing Airport Congestion**

**Sept. 15 (W)** **Market Failures, Continued**

 Principles of Economics, Ch. 11

 Ch. 17 (pp. 341-347)

 **Class Discussion: Is public education a public good?**

**Sept. 20 (M) Why Is There Inflation and Deflation?**

 Medium of exchange, inflation, deflation, real v. nominal (prices, wages, interest rates,), monetary policy, money supply, Federal Reserve, federal funds rate, fractional banking, reserve requirement

 Principles of Economics, Ch. 24, 29

 Ch. 30 (613-619, 622-624, 631-635)

**Sept. 22 (W)** **Inflation, continued**

 Principles of Economics Ch. 35 (pp. 745-749)

 Daniel Sanchez, “Bitcoin vs. The Buck: Is Currency Competition a Good Thing,” Federal Reserve Bank of Philadelphia (online, e-reserve)

**Sept. 27 (M) Why Are There Recessions and Depressions?**

 Unemployment, aggregate supply/demand, sticky wages and prices, paradox of thrift, liquidity trap, vicious/virtuous cycles, fiscal policy, Keynes v. Hayek

 Principles of Economics, Ch. 28 (pp. 567-580)

 Ch. 33 (pp. 683-689, 704-714)

 Ch. 34 (pp. 719-723, 727-736)

 **Group Discussion: Should companies use job-sharing during a recession to avoid layoffs?**

**Sept. 29 (W) Do Big Companies or Small Ones Drive Economic Growth and Job Creation?**

 Perfect and imperfect competition, fixed and variable costs, economies and diseconomies of scale, average v. marginal costs and revenue, elasticity of demand, oligopoly, monopoly and natural monopoly, network effects, automation, outsourcing, entrepreneurship and innovation, creative destruction

 Principles of Economics, Ch. 13

 Ch. 14 (pp. 263-272)

**Oct. 4 (M)**  **Big/Small Companies, continued**

 Principles of Economics, Ch. 5 (pp. 88-89, 97-105)

 Ch. 15 (pp. 287-302)

 Ch. 17 (pp. 335-340, 347-353)

 **Group Discussion: Should Amazon be broken up?**

**Oct. 6 (W) Review Session for Midterm**

**Oct. 11 (M) Columbus Day – No Class**

**Oct. 12 (Tues) Columbus Day Shuffle**

 **Midterm Exam - Bring Blue Book**

**Oct. 13 (W) Do Taxes Reduce Growth and Employment?**

 Overall tax burden; income, payroll, sales and corporate taxes, marginal v. effective tax rates, regressivity v. progressivity, tax efficiency, deadweight loss, incidence, income effect v. substitution effect, capital gains, reading an income statement

 Principles of Economics, Ch. 12, then Ch. 8

 Ch. 6 (pp. 119-127)

 Joel Slemrod, “The Truth About Taxes and Economic Growth,” Challenge, Jan-Feb., 2003 (online, e-reserve)

**Oct. 18 (M)** **Taxes, continued**

 William Gale and Aaron Krupkin, “Did the Tax Cuts and Jobs Act Pay for Itself in 2018?” Brookings Institution, March 2019 (online, e-reserve)

 U.S. Treasury, “The Made-in-America Tax Plan, “April 2021 (online, e- reserve

 **Group Discussion: The Biden Tax Plan**

**Oct. 20 (W)** **Has Globalization Been Good for America? Other Countries?**

 Gains from specialization and trade, trade deficits and surplus immigration, capital flows, exchange rates, reserve currency, competitiveness, tariffs, industrial policy, protectionism, mercantilism, winners and losers from globalization, US v China

 Principles of Economics, Ch. 9

 Ch 31 (pp. 639-649)

 Ch. 32 (pp. 673-680)

 Undercover Economist, Ch. 9

**Oct. 25 (M) Globalization, continued**

 Open, Ch. 1,3,4,5,6

 **Student Presentations: Has Globalization Been Good or Bad for My Family /City /Country?**

**Oct. 27 (W)** **Why Does the Cost of Health Care Rise Faster Than the Price of** **Everything Else.**

 Moral hazard, agent-principal problem, asymmetric information, risk pool, adverse selection, insurance spiral, individual mandate, community rating, fee-for-service, managed care/capitation, malpractice and defensive medicine, outcomes research

Principles of Economics, Ch. 22 (pp. 448-453)

Undercover Economist, Ch. 5

 Atul Gawande, “Cost Conundrum,” The New Yorker, June 1, 2009 (e-reserve and online)

 David Leonhardt, “Dr. James Will Make It Better,” New York Times, Nov. 8, 2009 (e-reserve and online)

**Nov. 1 (M)** **Health care, continued**

 Three articles from Health Affairs, “The ACA at 10,” March, 2020 (all on e-reserve):

 Glied, Collins and Lin, “Did the ACA Lower Financial Barriers to Health Care?”

 Soni, Wherry and Simon, “How Have ACA Expansions Affected Health Outcomes?”

 Buntin and Graves, “How the ACA Dented the Cost Curve”

 Josh Katz, Kevin Quealy and Margot Sanger-Katz, “Would Medicare for All Cost Billions or Save Billions?” New York Times, April 10, 2019 (e- reserve and online)

 **Group Discussion: Obamacare Reform v. Medicare for All**

**Nov. 3 (W)** **Why Do We Keep Having Financial Crises?**

 Financial intermediation, savings, investment, herd behavior, bank runs, bank capital, deposit insurance, stock and bond markets, IPOs, random walk/efficient market thesis, investment bubbles, panics, leverage, liquidity crisis v. credit crisis, securitization, shadow banking system, ratings agencies, derivatives, regulatory capture

 Principles of Economics, Ch. 26, 27 (pp. 559-563)

 Undercover Economist, Ch. 6

**Nov. 8 (M)** **Financial crises, continued**

 Assignment: Watch Movie, *The Big Short*

 **Group Discussion: Should government bail out banks to save the economy?**

**Nov. 10 (W)** **Why Have Incomes Become So Unequal?**

 Labor market, marginal productivity, efficiency wage, discrimination, income inequality before and after taxes/transfers, absolute and relative mobility, skills-biased technical change, education premium, norms of behavior, shareholder v stakeholder capitalism, unions, minimum wage, superstar markets, industry consolidation,

 Principles of Economics, Ch. 18, 19, 20, 28 (pp. 581-586)

**Nov. 15 (M)**  **Inequality, continued**

 “For Richer, For Poorer,” Special Report by The Economist magazine, Oct 13, 2012, **all 12 parts** (e-reserve)

 Scott Winship, “Overstating the Costs of Inequality,” National Affairs, Spring, 2013 (e-reserve and online)

 **Group Discussion: What is the optimal amount of income inequality?**

Nov. 17 (W) **Are People Rational in Their Economic Behavior?**

 Behavioral economics, fairness, the ultimatum game, endowment effect, anchoring, status quo bias, loss aversion, mental accounting, framing, bounded rationality

 Predictably Irrational, Ch. 1-4, 8,10,11

Nov. 22 (M) **Why Doesn’t the Airplane Passenger Sitting Next to** **You Pay the Same Fare?**

Price discrimination, rule of one price, bundling, tying

 Principles of Economics, Ch. 15 (pp. 302-307)

 Undercover Economist, Ch. 2

Nov. 24 (W) **Thanksgiving Recess**

Nov 29 (M) **If Economics is a Science, Why Do Economists Disagree So Much?**

Neo-classical Keynesian and New Keynesian economics, rational expectations, public choice, economic modeling, complexity, mathematization of economics

Dani Rodrik, “Economics: Science, Craft or Snake Oil?” Institute for Advanced Studies, 2013 (e-reserve and online)

Frederich von Hayek, “The Pretext of Knowledge,” Nobel Prize Lecture, 1974 (e-reserve and online)

Dec. 1 (W) **Review Session and** **Class Evaluation**

Dec. 8 (W) **Final Exam – Bring Blue Book**

**ELECTRONIC DEVICES:** All cell phones, computers and other communications devices must be shut off during class, except for official note-takers. If you are caught texting or emailing or surfing the web, you may be asked to leave the class session.

**STUDENTS WITH DISABILITIES:** If you are a student with a disability and you need academic accommodation, please see me and contact the Disability Resource Center at 703-993-2474.

**COMMUNICATION**: All students should check university e-mail accounts for class updates. I will send e-mails through Blackboard.

**ENROLLMENT:**  Students are responsible for verifying their enrollment in the class. Last day to drop classes without penalty is Monday Sept. 7. **Please let me or Heejoo know if you drop the class before or after that date.**

**HONOR CODE:**

1. No help may be given or received by students when taking quizzes, tests or examinations, whatever the type or wherever taken, unless the instructor specifically permits deviation from this standard.
2. All work submitted to fulfill course requirements is to be solely the product of the individual(s) whose name(s) appear on it. Except with permission of the instructor, there should be no reliance on projects, papers, lab reports or any other written work previously prepared by another student, and except with permission of the instructor, no paper or work of any type submitted in partial fulfillment of the requirements of another course may be used a second time to satisfy a requirement of any course. No assistance is to be obtained from commercial organizations that sell or lease research help or written papers. With respect to all written work, proper footnotes and attribution are required.