

**Government/Economics 367**  
**Money, Markets and Economic Policy**  
**Fall, 2024**  
**Mondays and Wednesdays: 1:30-2:45**  
**Buchanan 023**

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

**Office: East Building 207-C**

**Phone: 703-993-2165 / e-mail: [spearls2@gmu.edu](mailto:spearls2@gmu.edu)**

**Robinson Prof. Coordinator: Sharon Wood 703-993-2171 / [swood8@gmu.edu](mailto:swood8@gmu.edu)**

**Office Hours: Mondays 3-4:15, Wednesdays 10:30-noon, or by appointment**

**Teaching Assistant:**

**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 behavior of large and small businesses. The course will deal with policy issues such as taxes, health care, globalization, income inequality and financial crises, with a particular emphasis on 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. Very little math is 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 to today's debates about public policy. 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 of the week 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 also are invited to ask questions or make comments anytime during lectures—just raise your hand. At the beginning of each session, you should pick up their name cards from the front of the room and return them there at the end of each class session.

Slides from each lecture will be made available on Blackboard after class. The slides offer a good indication of the main topics and themes for each session, which should be useful in studying for the midterm and final. However, unlike many professors, I use slides sparingly, so you should also take notes by hand to help refresh your memory of the main concepts and points that are discussed in class.

**GROUP DISCUSSIONS:** From time to time, the class will break up into assigned discussion groups for 10-15 minutes. A member of each group will then report its conclusions to the full class. On the first day of class, please let the teaching assistant know if there are other students you would like to have in your discussion group. Group assignments will be posted on Blackboard.

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 online 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. This role can be passed around to others as the semester progresses.

**DISCUSSIONS AND FREE EXPRESSION:** Courses about public policy and politics inevitably involve sensitive and controversial topics about which reasonable people disagree. Students are likely to read or hear opinions that are different from their own. Part of becoming an educated person is learning how to engage with divergent perspectives. In

class and during group discussions, all students should feel free to express thoughts and opinions that may be at odds with those of the professor or other students, or which challenge currently prevailing views on campus. The only requirement is that you express your views in a way that is respectful of the values, opinions, and reasoned arguments of others in the class. We are all continuously trying to formulate our settled positions. Any student unwilling to accept these basic rules of free, open and respectful discussion should reconsider enrolling in this course.

**STUDENT EVALUATION:** There will be a midterm exam and a final exam. Both will require familiarity with readings and material covered in class and apply economic concepts and reasoning. Because much of these exams will involve essays that require you, in your own words to explain and apply economic concepts, you won't be able to memorize your way to success. Rather, the exams are designed to see if you have achieved a genuine understanding. You may bring the equivalent of up to five (one-sided, double-spaced) pages of typed notes when taking the mid-term, and ten pages to the final exam. Before each of the exams, there will be an in-class review at which you can ask to go over anything from the reading or lectures that you don't understand.

**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 understood 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, even for those with medical and other valid excuses.

The best "study guide" for quizzes and the exams are the lecture slides and this syllabus, which lists the key economic concepts that will be explored each week. In your own words, you should be able to explain each concept in a sentence or two and give a real-world example that illustrates it.

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

Quizzes	20%	100 points
Class Participation/Discussions	20%	100 points
Midterm	25%	125 points
Final	35%	175 points

**OFFICE HOURS:** I hold regular office hours in my office in the East Building, listed at the top of the syllabus, that require no appointment. I am also available at other times by appointment. Students who are having trouble understanding the readings or lectures or doing poorly on quizzes should use these opportunities, either to review material or figure out why you are finding the course so challenging. I am willing to spend as much time as necessary to assure your success in this course, but it is your responsibility to take the initiative and ask for help.

You are also encouraged to come by the office to read my lecture notes for any class sessions you may have missed or did not understand.

**BOOKS AND COURSE MATERIALS:** Some student may find the reading load for this course heavier than other Mason courses. The heaviest assignments come in the first several weeks, so you may want to get a head start on the reading in August. There is even a reading assignment for the first class session, which will be available on Blackboard under Course Content, the Introductory module.

You should expect to spend at least three hours each week doing the assigned reading. After reading each book chapter or article, consider writing a short summary of what you just read, in your own words, focusing on the main points and themes rather than the details. The summaries will be useful in studying for the quizzes and exams.

The textbook for the course is **Principles of Economics (9<sup>th</sup> 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 9<sup>th</sup> 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 course. As a result, we will be jumping around the textbook quite a bit. You need not bother with the textbook's appendices and problem sets that come at the end of chapters. There will also 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 worry or get hung up on these – if you find them difficult, just skip over them. The textbook reading is meant to provide you with an introduction to the key economic concepts and principles that will be expanded on during lectures and discussions. The textbook reading itself, however, will rarely 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. You can also access this book free from the university library at <https://ebookcentral-proquest-com.mutex.gmu.edu/lib/gmu/detail.action?docID=578797>.

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

On many weeks, 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 or textbook.**

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.

**MASON CORE:** This course satisfies the requirement that all Mason students take at least one course in Social and Behavioral Science. As such, taking it should allow you to (1) Explain how individuals, groups or institutions are influenced by contextual factors; (2) Demonstrate awareness of changes in social and cultural constructs; and (3) Apply social and behavior science concepts, terminology, principles and theories in the analysis of significant human issues, past or present.

## CLASS SCHEDULE

**Aug. 26 (M)**

### **Introduction and Overview: Why Study Economics?**

Tradeoffs, scarcity, opportunity cost, cost v benefit, correlation v causation, sunk costs, discount rate, marginal thinking

Principles of Economics, Ch. 1 and 2

Undercover Economist, Ch. 1 (e-reserve)

**Aug 28 (W)**

### **Why Are Some Nations Rich and Others Poor?**

Productivity, exchange and specialization, comparative v. absolute 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

**Sept. 2 (M)**

### **Labor Day – No Classes**

**Sept. 4 (W)**

### **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 into the global “middle class”**

**Sept. 9 (M)**

**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. 11 (W)**

**Competitive Markets, continued**

Undercover Economist, Ch. 3 and 10

**Class Discussion: What is greed?**

**Sept. 16 (M)**

**Why Do Markets Sometimes Fail?**

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

Principles of Economics, Ch. 10

Undercover Economist, Ch. 4

**Group Discussion: Fixing Airport Congestion**

**Sept. 18 (W)**

**Market Failures, Continued**

Principles of Economics, Ch. 11

Ch. 17 (pp. 341-347)

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

**Sept. 23 (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, supply v. demand driven inflation

Principles of Economics, Ch. 24, 29

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

**Sept. 30 (M)**

**Inflation/Deflation, continued**

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

“This Inflation is Demand Driven and Persistent,” Jason Furman, Project Syndicate, April, 2022

Has Team Transitory really won America’s inflation debate, *Economist*, Jan. 10, 2024

**Class Discussion: What caused the recent spike in inflation?**

**Oct. 2 (W)**

**Why Are There Recessions and Depressions?**

Unemployment, aggregate supply/demand, sticky wages and prices, liquidity trap, vicious and 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)

**Oct. 7 (M)**

**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. 9 (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 and Google be broken up?**

**Oct. 14 (M)**

**No Classed – Fall Break**

**Oct. 16 (W)**

**Review Session for Midterm**

**Oct. 21**

**Midterm Exam**

**Oct. 23 (W)**

**Why Have Incomes Become So Unequal?**

Labor market, income inequality before and after taxes/transfers, equality of outcomes v opportunity, absolute and relative mobility, skills-biased technical change, education premium, norms of behavior, maximizing shareholder value, unions, minimum wage, superstar markets

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

**Oct. 28 (M)**

**Inequality, continued**

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

**Class Discussion: Who pays for an increased in the minimum wage?**

**Oct. 30 (W)**

**Has Globalization Been Good for America and the World?**

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)

**Nov. 4 (M)**

**Globalization, continued**

Dani Rodrik, “Globalization’s Wrong Turn and How It Hurt America,” *Foreign Affairs*, July/Aug., 2019

Undercover Economist, Ch. 9

**Class Discussion: Has globalization been good or bad for your family /region /country?**

**Nov. 6 (W)**

**Why Does the Cost of Health Care Rise Faster Than the Price of Everything Else.**

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

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. 11 (M)**

**Health care, continued**

Abby Goodnough, Reed Abelson, Margot Sanger-Katz and Sarah Kliff, "Obamacare Turns 10: Here's a Look at What Works and What Doesn't," *New York Times*, March 23, 2020 (e-reserve)

Josh Katz, Kevin Quealy and Margot Sanger-Katz, "Would Medicare for All Cost Billions or Save Billions?" *New York Times*, Apr. 10, 2019 (e-reserve)

**Class Discussion: Medicare for All?**

**Nov. 13 (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 and 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. 18 (M)**

**Financial crises, continued**

Assignment: Watch Movie, *The Big Short*

**Class Discussion: Should the government bailout failing banks?**

**Nov. 20 (W)**

**Do Taxes Reduce Growth and Employment?**

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

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

Ch. 6 (pp. 119-127)

**Nov. 25 (M)**

**Taxes, continued**

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

"The Economics of Federal Tax Policy," Emily Moss, Ryan Nunn and Jay Shambaugh, Hamilton Project, Brookings Institution

**Group Discussion: What's *your* tax plan?**

**Nov. 27 (W)**

**No Classes – Thanksgiving**

**Dec. 2 (M)**

**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

**Dec. 4 (M)**

**If Economics is a Science, Why Do Economists Disagree So Much?**

Neo-classical 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)

**Dec. 9 (M)**

**Review Session for Final and Class Evaluation**

**Dec. 16 (M)**

**Final Exam – Bring Blue Book**

**COMMUNICATIONS:** Students are expected to check their Mason email accounts regularly to receive important university information, including communications and updates related to this class. Feel free to contact the professor or teaching assistant by email any day, at any time, if you are having trouble accessing the assigned reading or other material on Blackboard. You should also contact us if you are going to miss multiple class sessions.

**ELECTRONIC DEVICES:** All cell phones, computers and other communications devices must be shut off during class without special permission,

**STUDENTS WITH DISABILITIES:** I am eager and anxious to accommodate students with disabilities, whether it be during regular class sessions or with quizzes and tests. I strive to do this in ways that are flexible and non-bureaucratic and sensitive to particular needs of each students. If you have such a disability, you may want to contact and register with the Disability Services Office before or early in the semester. The office is located in Student Union Building 1, Suite 2500. The email is [ods@gmu.edu](mailto:ods@gmu.edu). The phone number is 703-993-2474. For minor concerns, please contact me directly.

**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 financial penalty is Monday Sept. 9. **Please let the professor or the teaching assistant know if you drop the class before or after that date.**

**HONOR CODE:** The principle of academic integrity is taken serious at Mason, and in this class, and violations will have serious consequences. The full description of the Honor Code can be found at the website of the Office of Academic Integrity. When in doubt, please ask for clarification. Two basic rules:

1. No help may be given or received by students when taking quizzes or tests.
2. All work submitted to fulfill course requirements is to be solely the product of the individual whose name appears on it. Except with permission of the instructor, there should be no reliance on projects, papers, lab reports, artificial intelligence programs or any other written work prepared by someone else. 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 this course. With respect to all written work, proper footnotes or attribution are required.