

**ECON 111 – The Economic System**  
**Section 001 - CRN 14257**  
**Spring 2009: Tuesday & Thursday 10:00-11:15, Room 459 B&E**

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**COURSE OBJECTIVES AND LEARNING OUTCOMES:**

The goal of this course is to help you learn to “think like an economist” by introducing you to key economic principles and exploring their application to contemporary issues. Economics is not just about money, the stock market, or business. It is a way of analyzing *all forms* of human decision-making—from profit-seeking to voting to criminal behavior.

This class is deliberately provocative and encourages you to challenge many “conventional wisdoms.” Its approach will teach you to detect and correct fallacious economic reasoning and expose common economic myths. By the end of the semester your capacity to observe your surroundings through the lens of economics will improve. As a result, so will your appreciation for how the world works.

Upon completion of this course, you will be able to:

1. Understand the principles of economic thinking.
2. Apply this way of thinking to current policy issues.
3. Understand human behavior through the lens of economics.
4. Detect and correct fallacious economic reasoning and expose common economic myths.

**COURSE PREREQUISITES:**

Freshman status.

**REQUIRED MATERIALS:**

1. [CSE]: Gwartney, James, Richard L. Stroup, and Dwight R. Lee. *Common Sense Economics: What Everyone Should Know about Wealth and Prosperity*. New York: St. Martin's Press, 2005.
2. [PI]: Miller, Roger LeRoy, Daniel K. Benjamin, and Douglass C. North. *The Economics of Public Issues, 15<sup>th</sup> ed.* New York: Pearson Addison-Wesley, 2008.
3. [UC]: *Unleashing Capitalism: Why Prosperity Stops at the West Virginia Border and How to Fix It*. Morgantown, WV: Center for Economic Growth, The Public Policy Foundation of West Virginia, 2007.

**COURSE ACTIVITIES (GRADED):**

- (1) Two In-class Exams
- (2) Four "Defending the Undefendable" Essays
- (3) Book Project

**REGULARLY SCHEDULED EXAMS:**

There will be two exams: a midterm and a final, each worth 30% of your final course grade. The first exam will be likely either February 19 or 24<sup>th</sup>, although we will decide the specific date in class. The final exam is during the regularly scheduled final exam period for this class, which is Monday, May 4 from 11am-1pm in our normal room. The exams will be multiple choice. Bring with you to the exams: an answer sheet (NCS Form 30423), a pencil, a picture ID, and a calculator. Any material from the books, videos, or my lectures is fair game for the exams, but I will weight much more heavily the material we cover in the classroom.

**"DEFENDING THE UNDEFENDABLE" ESSAYS**

There are four essays, each worth 5% of your final course grade. Each essay must be typed, double spaced, with one inch margins on all sides, and in 12 point Times New Roman font type. The essay must be between one and a half and two pages. Each essay should select a controversial economic topic that we have both covered in class, and that is also covered in your book "The Economics of Public Issues." Your essay should mix elements from my lectures, the videos, and the public issues book to give a summary of the economic argument on the topic you have chosen. Please remember that your essay is not supposed to be an opinion article, nor a debate. It is simply supposed to repeat the economic arguments you have learned, but in your own words. A good way to start out your essay would be "Economic analysis suggests that..." and then give the arguments behind the economic position. You may pick topics you either agree or disagree with, but in either case, you are only to present the economic analysis of the issue, not your personal opinion.

Due dates for "defending the undefendable" essays:

- Essay 1 – Jan 29, 2009
- Essay 2 – Feb 19, 2009
- Essay 3 – Mar 12, 2009
- Essay 4 – Apr 16, 2009

**BOOK PROJECT:**

You are required to write up a review and analysis of the book on West Virginia economic policy reform, *Unleashing Capitalism: Why Prosperity Stops at the West Virginia Border and How to Fix It*. This assignment is worth 20 percent of your grade. Your project should be eight to ten pages, typed, double spaced, in 12 point font, with one inch margins, and stapled. Your report should do two things: (1) provide a one or two paragraph summary of each chapter of the book, and (2) pick any three reforms listed in the book that you think might be most helpful in improving our economy (or that you just like the best), and write up about a page on each one, discussing these reforms in more detail. The report is due at the beginning of class on Thursday, April 9.

**ATTENDANCE:**

Although I do not take attendance, I highly recommend coming to each class. This is particularly true because as noted above, my lecture materials will be heavily weighted on the exams, and my lectures do not parallel the text's discussion.

**LATE ASSIGNMENTS:**

If you miss a midterm for a legitimate reason (with documentation), you must contact me to schedule a make-up exam. Unless prior arrangements have been made, the make up must be given before the next regularly scheduled class period. If one of your "defending the undefendable" essays, or book project is turned in one class period late, it will be reduced to half credit. These essays will not be accepted after they are one class period late.

**DETERMINATION OF GRADE:**

Individual grades will be assigned based on the following formula:

$$\begin{aligned} & 0.30 * \text{Midterm Exam Grade} \\ & + 0.30 * \text{Final Exam Grade} \\ & + 0.20 * \text{Book Project Grade} \\ & + 0.05 * \text{Essay 1 Grade} \\ & + 0.05 * \text{Essay 2 Grade} \\ & + 0.05 * \text{Essay 3 Grade} \\ & + \underline{0.05 * \text{Essay 4 Grade}} \\ & = \text{Final Average} \end{aligned}$$

The grading scale is as follows:

89.50 and up: **A**  
79.50-89.49: **B**  
69.50-79.49: **C**  
59.50-69.49: **D**  
Below 59.49: **F**

The grading policies are *final*. I will not negotiate your final grade; please do not ask.

**ACADEMIC DISHONESTY:**

Cheating will not be tolerated and can result in a failing grade, dismissal from class, and expulsion from the university. If I suspect you of cheating I will seek the appropriate punishment under the guidelines of the Student Code of Conduct.

**TEACHING ASSISTANT:**

This class has a graduate teaching assistant (TA), Ms. Nabamita Dutta. The TA is here to help you when you have questions about the material, assignments, exams, or other components of the class. The TA will have regular office hours (listed on the first page of this syllabus) to assist you with course-related issues. She will have primary responsibility for grading and keeping grades, so please contact them first if you have a grade question or problem, and then see me if you can't get it resolved. We may have additional helper TAs.

NOTE: The instructor reserves the right to change this syllabus as time and circumstances dictate. Necessary changes will be announced in class in advance when possible.

# TENTATIVE SCHEDULE OF EVENTS

## Schedule of Topics (subject to revision; assigned readings in brackets):

### Part 1: Basic Economic Principles

1. Scarcity, Choice, Opportunity Costs, and Trade-Offs [CSE I.2, PI 2]
2. Incentives Matter: Rational Choice [CSE I.1, PI 23]
3. Scientific Method: Why Good Intentions Aren't Enough [CSE I.10, PI 22]
4. Thinking at the Margin: Diamond Water Paradox and Optimal Level of Everything [CSE I.3, PI 3, PI 26]
5. The Role of Sunk Costs in Decision Making
6. Voluntary Exchange and Wealth Creation [CSE I.4]
7. Transactions Costs as a Barrier to Trade [CSE I.5]

### Part 2: Property Rights and The Environment

1. Negative and Positive Rights, What is Coercion?, and Application to Eminent Domain
2. Incentives Created by Property Rights: The Tragedy of the Commons [CSE II.1]
3. Property Rights and the Environment: Elephants and Cows [PI 27]
4. Are We Running Out of Resources? Frankenfoods
5. Buying and Selling Pollution Rights [PI 28]

### Part 3: Supply and Demand with Applications

1. Basic Supply and Demand: Why Eggs Cost More at Easter
2. Price Controls: Rent Controls, Minimum Wages, and Price Gougers [PI 10, PI 12]
3. Drugs, Prostitution, Organs, Gangs, and the Market for Babies [PI 5]
4. Relative Prices and Adjusting for Inflation: Are Gas Prices Really High? [PI 7]
5. Discrimination: Male and Female Wage Differences, and Discrimination in Markets [PI 11]

### Part 4: Invisible Hand, Spontaneous Order, and Entrepreneurship [PI 17, 18 generally apply to this section]

1. Spontaneous Order vs. Central Planning, Socialist Calculation Debate, Local Knowledge [CSE III.8]
2. Adam Smith's Invisible Hand Principle and the Role of Prices: I Pencil [CSE I.9]
3. Is Greed Good? Selfishness and Cooperation [CSE I.7]
4. Costly Signals, Namebrands, and Private Regulation
5. Entrepreneurship and Discovery
6. The Role of Profits and Losses: How Much is Too Much Profit? [CSE I.6, PI 16]
7. Creative Destruction: Why Business Failure is Good [CSE II.2]

### Part 5: The Role of Government and Public Choice Theory

1. A General Introduction to the Economic Approach to Policy Analysis
2. The Role of Government: Protective and Productive Functions [CSE III.1, III.2, PI 29]
3. The Size and Growth of Government
4. Privatization [CSE III.9, PI 25]
5. Voter Ignorance and Voting Cycles: Why People Don't Vote
6. Special Interests: Bringing Home the Pork and Bureaucratic Budgets [CSE III.4, CSE III.5, PI 21]
7. Productive and Unproductive Entrepreneurship
8. The Importance of Constitutional Constraints [CSE III.10]

### Part 6: Applications to Specific Government Policies and Programs

1. The Laffer Curve: Do The Rich Pay Enough Taxes? [CSE II.6]
2. The Cost of Government isn't Just Tax Revenue [CSE III.3]
3. The Broken Window Fallacy: Can the Government Create Jobs?
4. School Choice & Vouchers
5. Regulating the Workplace: Child Labor, Mandated Benefits, European Unemployment, Safety [CSE II.3]
6. Anti-trust and the Capture Theory of Regulation [PI 20]
7. Income Inequality and Poverty [CSE III.6, CSE III.7, PI 13]

Part 7: Specialization, International Trade, Economic Growth and Globalization

1. Specialization, Comparative Advantage, Free Trade, and the Trade Deficit [CSE II.7, PI 31]
2. Output, Income, and Economic Growth: Measuring GDP [CSE II.4]
3. Labor Productivity, Wages, and the Role of Capital Investment
4. In Defense of Sweatshops
5. Outsourcing: Is it Destroying American Jobs? [PI 14]

Part 8: Economic Development: Why Are Some Countries Rich and Others Poor?

1. Adam Smith's Question and His Legacy [CSE I.8]
2. Economic Freedom and the Role of Government [PI 4, PI 32]
3. Economic Development in Africa
4. Foreign Aid and the Natural Resource Curse
5. West Virginia's Economic Development: *Unleashing Capitalism*

Part 9: Stock Market and Investment

1. The Power of Compound Interest
2. Risk and Return
3. Random Walks down Wall Street
4. Discounting & Present Value (Bonds)
5. Personal Finance [CSE: all sections of part IV– IV.1 to IV.12]
6. The Financial Crisis of 2008

Wrapping it up: A Review of Key Elements Lists from *Common Sense Economics*