Introduction to Economics
Phil Graves (EC1000) Summer, 1996
University of Colorado

Introduction

This course is not about learning bits and pieces of technique that are applied to a narrow range of traditional (usually boring) topics. But neither is the course merely a "problems and issues" survey--such courses tend to worsen the already sloppy logic that many students enter the course with! Students come away from such courses with an incorrect sense that "everybody's entitled to their opinion," "it's all relative," and "economics isn't really a science."

This course, on the contrary, is about "the economic way of thinking" (one of our text titles) as applied to a host of decisions that we face daily and throughout our lives. This economic way of thinking is not very difficult for you to learn. It is an important component of every decision you will ever make. It will lead you to think differently--to really gain new insights--about a wide range of often controversial subjects. And, it is fun!

What is "Economics"?

We have to worry about "economizing"--on our time and dollar spending--because we can't have everything we want. This simple idea, the fact of scarcity, is the organizing focus of economics (and probably why economics has been referred to as the "dismal science" by Carlyle). Scarcity implies that even very beneficial activities (studying, dating, sleeping--everything you choose to do) always have costs. The costs, called "opportunity costs" by economists to emphasize that they have little to do with dollars, are the forgone benefits of the option precluded by the choice actually made (e.g. buying the VCR means you can't have the 12 CD's you would have otherwise chosen). An important implication of this is that people respond to incentives (e.g. a CD "sale"--a lower price for CDs--may induce you to change your choice). The point here is that all actions we engage in have both benefits and costs (whether we want to think about them or not!) and rational people will want to take those actions with expected benefits greater than expected costs.

The systematic exploration of the preceding ideas is really all this course is about. We will--relentlessly!--apply these central concepts to a vast array of problems and issues that you have already doubtlessly thought about. The goal is to alter your way of thinking for the rest of your life. I truly believe that if you acquire the economic way of thinking your life will be immeasurably improved.

Administrative Details

A. Who, Where, and When:
Phil Graves
Economics Bldg, Room 223 (second floor, northwest corner)
Office Hours: MTWTh 11:00-11:30
(and by appointment)
Phone: 492-7021 (leave a message)
B. Texts:

(This is the principal text for the course and is a classic source
of applications for the tools of economic thinking)

Miller, Roger, Daniel Benjamin, and Douglass North. The Economics of Public Issues,
(Another fun read with numerous, simply-presented analyses of the issues
of our time)

C. Grading

I have an unusual and complicated (but extremely fair!) grading system. There will be
two midterms and a comprehensive final. On each multiple-choice exam enough points are
added to everyone's bring the median score up to 75 (e.g. if the median for a particular exam
is 68, 7 points will be added to each person's exam). Hence, doing well on a difficult exam,
say getting a 96 when the median was 68 enables you to get over 100 points, in this example
receiving a 103. Should the median for an exam be above 75, I do not subtract (such an
outcome indicates either that you are part of an unusually smart or studious class or--more
likely?--that I made the test too easy, hence it is my problem). After these adjustment points
are added, I will calculate your course test grades as the largest number arising from the
following alternative calculated scores:

"Score 1": \[0.3(1st \text{ Mid Grade}) + 0.3(2nd \text{ Mid Grade}) + 0.4(\text{Final Grade})\]

"Score 2": \[0.4(2nd \text{ Mid Grade}) + 0.6(\text{Final Grade})\]

"Score 3": \[0.4(1st \text{ Mid Grade}) + 0.6(\text{Final Grade})\]

Hence, if you "mess up" (or miss) either of the midterm exams (but not both), that test will
automatically be dropped; the comprehensive final is weighted more heavily in this case. There
will be no early exams or make-up exams, since they are difficult to make comparable and this
system does not penalize you for missing one exam in any event. Should you miss an exam,
come to my office and get a copy of it and take it under "test conditions," later comparing your
answers with those posted (you will know in this way how you would have done, aiding in your
study for the final).

The University of Colorado does not allow me to award even the best of you with an
"A+," hence there is (unfortunately) little incentive to really learn the material of any course,
in particular this one. I overcome this difficulty--since I believe in creating an incentive to really
excel--by letting anyone with an adjusted 98 or higher average on the two midterms out of the
final! [Note: even if you personally do not get out of the final, you should cheer for those that
do, since the median will be lower on the final, causing more points to get added to everyone's
score on this important test!]

I view attendance at either my lectures or the recitation sections as highly desirable, but
do not believe in penalizing those who feel otherwise. Yet those who attend and perform well
in recitation always want to feel that they are rewarded for doing so. The way I handle this is
to make the TA portion of the grade determine the grades of those on the "margin." The TAs
will be, by any system they view as fair and appropriate, assigning one of three grades to your
recitation performance in roughly equal proportions: +, 0, or -. If you are on the margin (see
below) the + moves you up, the minus moves you down, and the 0 does neither. That is, you
can have an 89 (normally a B+) and get either an A-, a B, or stay at a B+; similarly, you could
have a 91 (normally an A-) and get either an A, a B+, or stay at an A-. As you can see, there
may be substantial advantages to attending recitation and striving in it--however, if you are think
you know better how to allocate your time than I do (a reasonable proposition, incidentally), you

 can be a risk-taker and "blow off" recitation entirely. If you get a 93 you get the A; an 87 gets

 you a B; that is, you are not harmed, if you are not on the "margin," by deciding not to go to

 recitation. Thus, we come to the final course grade calculation:

 Highest Average "Score"

<table>
<thead>
<tr>
<th>Score Range</th>
<th>Grade</th>
</tr>
</thead>
<tbody>
<tr>
<td>100-92</td>
<td>A (100-98 on 2 midterms, exempt from final)</td>
</tr>
<tr>
<td>92-88</td>
<td>A, A-, B+, or B (depends on recitation grade)</td>
</tr>
<tr>
<td>88-82</td>
<td>B</td>
</tr>
<tr>
<td>82-78</td>
<td>B, B-, C+, or C (depends on recitation grade)</td>
</tr>
<tr>
<td>78-72</td>
<td>C</td>
</tr>
<tr>
<td>72-68</td>
<td>C, C-, D+, or D (depends on recitation grade)</td>
</tr>
<tr>
<td>68-62</td>
<td>D</td>
</tr>
<tr>
<td>62-58</td>
<td>D, D-, F+, or F (depends on recitation grade)</td>
</tr>
</tbody>
</table>

Abbreviated Course Outline and Reading Assignments

I will be handing out, beginning on the second day of class, fairly detailed class notes. The second book adopted for this course does not lend itself readily to any particular organization; you may wish to read straight through it, like a novel. The following recommended reading order comes as close as possible to following the order of presentation that I prefer:

I. The Economic Way of Thinking: Introduction

Heyne, Chapter 1
Miller, Benjamin, and North, Part One (Introduction and Chapters 1, 2, 3)
Class notes

II. Demand and Supply: The Basics

Heyne, Chapters 2, 3, 4
Miller, Benjamin, and North, Part Two (Introduction and Chapters 4, 5, 6, 7, 8)
Class notes

(first midterm about here)

III. More Demand and Supply: Elasticity, Market Issues, and Market Structures

Heyne, Chapters 5, 6, 7, 8, 9, 10, 11
Miller, Benjamin, and North, Part Three (Introduction and Chapters 9, 10, 11, 12, 13)
Class notes

IV. Demand and Supply in Input Markets: Income Distributional Issues

Heyne, Chapter 12
Miller, Benjamin, and North, Part Four (Introduction and Chapters 14, 15, 16, 17, 18)
Class notes

(second midterm about here)

V. Private and Public Market Failure:

Externalities, Public Goods, Regulation, and Illegal Goods

Heyne, Chapters 13, 14
VI. The International Economy

Heyne, Chapter 21
Miller, Benjamin, and North, Chapters 28, 29, 30

Class notes

VII. Macroeconomics

Heyne, Chapters 15, 16, 17, 18, 19, 20, 22

Class notes

(Final Exam, July 3, in class—Good Luck!)