Economics
2022-23

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Room SS10

Course Description

This will be a year-long course in economics consisting of two halves. During the first semester we will study microeconomics and during the second semester we will study macroeconomics. We will divide microeconomics into two units. First, we will cover the basics of all economics: scarcity, choice, opportunity cost, resources, free enterprise, markets, ethics, entrepreneurship, demand, supply, and market equilibrium. Second, we will study microeconomics proper: business decisions based on costs, revenues, and profits; market competition; employment and wages; and the role of government. We will also divide macroeconomics into two units. First, we will study the domestic economy: money, banking, economic performance, inflation, deflation, unemployment, business cycles, economic growth, fiscal and monetary policy, and government budgets. Second, we will examine the global economy: economic development, international trade, and comparative economic systems (socialism vs. capitalism).

Textbook

Arnold, R. (2001). *Economics in our times*. Chicago: National Textbook Company.

Units of Study

Unit 1 – The Basics of Economics (7 weeks)

Ch. 1: What economics is about
Ch. 2: Our free-enterprise system: markets, ethics, and entrepreneurs
Ch. 3: Demand
Ch. 4: Supply
Ch. 5: Markets: supply and demand together

Essential questions: What is scarcity, choice, and opportunity cost? Is there a difference between zero price and zero cost? How do economists approach problems? What is the difference between microeconomics and macroeconomics? Why do economists build theories? What is a theory? How should we judge theories? What are the four factors of production?
What are the monetary payments to each of the four factors of production? What are the three economic questions that every society must answer? What is an economic

system? What is a mixed economy? What goods will be produced in a free-enterprise economy, how, and for whom? What are the five major features of free enterprise? What do profits, losses, and resources have to do with one another? What is an ethical economic system? What are some of the freedoms in free enterprise? What is an entrepreneur? What are the roles of government in a free-market economy? What is a public good? How are governments, businesses, and households related? What is demand? Why do price and quantity demanded move in opposite directions? What does it mean when demand curves shift? What are normal goods, inferior goods, neutral goods, substitutes, and complements? What is elasticity of demand? What factors affect the elasticity of demand? What is supply? What does it mean when supply curves shift? How do supply and demand together determine price?

Objectives/Desired Outcomes:
Students will learn how to:
- Discuss the usefulness of some of the key concepts in economics such as scarcity, choice, and opportunity cost.
- Explain how choice and opportunity cost are related to scarcity.
- Explain how changes in opportunity cost affect behavior.
- Discuss trade-offs, unintended consequences, and the global economy.
- Explain why economists build and test theories.
- Identify the three economic questions that every society must answer.
- Discuss how the free-enterprise system answers those three key questions.
- Discuss the five major features of free enterprise.
- Identify the role of government in a free-enterprise economy.
- Create a circular flow diagram.
- State the law of demand and explain what it means when demand rises or falls.
- Draw a demand curve and list the factors that can change demand.
- Explain the concept of elasticity of demand.
- Understand when a price increase increases revenue and decreases revenue.
- State the law of supply and explain what it means when supply rises or falls.
- Draw a demand curve and list the factors that can change demand.
- Explain the concept of elasticity of supply.
- Explain how supply and demand together determine price.
- Explain how surpluses and shortages affect price.
- Explain what happens when price is not at its equilibrium level.

McREL Standards
E.9-12.1.1. Understands that marginal benefit is the change in total benefit resulting from an action, and marginal cost is the change in total cost resulting from an action.
E.9-12.1.2. Understands that optimal levels of output (e.g., production output, output of services provided by a public program) can be determined by comparing the marginal benefits and costs of producing a little more against the marginal benefits and costs of producing a little less.

E.9-12.1.3. Understands that increases in productivity are affected by incentives that reward successful innovation and investments (e.g., in research and development, and in physical and human capital).
E.9-12.1.4. Understands that investing in new physical or human capital involves a trade-off of lower current consumption in anticipation of greater future production and consumption.
E.9-12.1.5. Understands that technological change and investments in capital goods and human capital may increase labor productivity but have significant opportunity costs and economic risks.
E.9-12.3.1. Understands that the demand for a product will normally change (i.e., the demand curve will shift) if there is a change in consumers incomes, tastes and preferences, or a change in the prices of related (i.e., complementary or substitute) products.
E.9-12.3.2. Understands that the supply of a product will normally change (i.e., the supply curve will shift) if there is a change in technology, in prices of inputs, or in the prices of other products that could be made and sold by producers.
E.9-12.3.3. Understands that changes in supply or demand cause relative prices to change; in turn, buyers and sellers adjust their purchase and sales decisions.
E.9-12.3.4. Understands that a shortage occurs when buyers want to purchase more than producers want to sell at the prevailing price, and a surplus occurs when producers want to sell more than buyers want to purchase at the prevailing price.
E.9-12.3.5. Understands that shortages or surpluses usually result in price changes for products in a market economy.
E.9-12.3.6. Understands that when price controls are enforced, shortages and surpluses occur and create long-run allocation problems in the economy.

Unit 2 – Microeconomics: Business, Markets, and Economic Decisions (8 weeks)

Ch. 6: Business decisions: costs, revenues, and profits
Ch. 7: Competition and markets
Ch. 8: Employment and wages
Ch. 9: Government and business

Essential questions:
Why do business firms exist? What is a sole proprietorship? What is a partnership? What is a corporation? What are fixed costs and variable costs? What do total costs equal? How do we compute fixed cost, variable cost, average total cost, and marginal cost? What is total revenue? What is marginal revenue? How do firms use marginal revenue and marginal cost to determine how many units of a good to produce? What characterizes perfect competition? What are some examples of perfectly competitive markets? What does it mean to say a firm has no control over prices? What are the characteristics of a monopoly? What are examples of barriers to entry? Do monopolies ever face competition? What are the characteristics of monopolistic

competition? What are the characteristics of oligopoly? What are cartel agreements? What do the demand curve and the supply curve for labor look like? Why do wage rates differ? How might labor unions affect the demand for and supply of labor? What is a union shop? What is the purpose of a strike? How do we count various people when calculating unemployment? What to antitrust acts deem illegal? What are the criticisms of antitrust acts? What are the two principal ways of regulating a natural monopoly? How does the public choice theory of regulation differ from the capture theory of regulation? What are positive and negative externalities? What can be done about negative externality problems?

Objectives/Desired Outcomes:

Students will be able to

- Define firms and explain why they exist.
- Describe the three main forms of business organizations.
- Describe the structure of a corporation.
- Explain the difference between stocks and bonds
- Explain the difference between variable costs and fixed costs.
- Compute total cost, average total cost, marginal cost, and marginal revenue.
- Explain how firms decide what level of output to produce.
- Explain how firms decide how many workers to hire.
- List the conditions that characterize four main market structures.
- Compare a firm that is a price taker to one that is a price searcher.
- Identify two questions that every firm has to answer.
- Explain how free entry into a market drives profits to zero.
- Differentiate between a government monopoly and a market monopoly.
- Explain why cartel agreements are often broken.
- Explain why some people earn higher wages than others.
- Describe the employment effects of minimum wage laws.
- Describe how labor unions try to affect the demand for and supply of their labor.
- Explain how labor unions affect union and nonunion wages.
- Explain the difference between the employment rate and the unemployment rate.
- Describe important historical government laws that govern businesses.
- Explain the kinds of regulation for natural monopolies.
- Explain how economists think about regulation.
- Explain how government deals with negative externalities.

McREL Standards:

E.9-12.2.1 Understands that the effectiveness of allocation methods can be evaluated by comparing costs and benefits.

E.9-12.2.2 Understands that economic institutions (e.g., small and large firms, labor unions, not-for-profit organizations) have different goals, rules, and constraints, and thus respond differently to changing economic conditions and incentives.
E.9-12.2.3 Understands that incorporation encourages investment by allowing firms to accumulate capital for large-scale investment and reducing risk to individual investors.
E.9-12.2.4 Knows that property rights, contract enforcement, standards for weights and measures, and liability rules affect incentives for people to produce and exchange goods and services.
E.9-12.2.5 Understands that in every economic system consumers, producers, workers, savers, and investors respond to incentives in order to allocate their scarce resources to obtain the highest possible return, subject to the institutional constraints of their society.
E.9-12.4.2 Knows that collusion among buyers or sellers reduces the level of competition in a market and is more difficult in markets with large numbers of buyers and sellers.
E.9-12.4.3 Understands that in the long run the level of competition in an industry is determined largely by how difficult and expensive it is for new firms to enter the market and by consumers' information about the availability, price, and quantity of substitute goods and services.
E.9-12.4.4 Understands that the introduction of new products and production methods by entrepreneurs is an important form of competition and source of technological progress and economic growth.
E.9-12.4.5 Understands that externalities are unintended positive or negative side effects that result when the production or consumption of a good or service affects the welfare of people who are not the parties directly involved in the market exchange (e.g., a negative externality in consumption occurs when cigarette smoking by one individual has harmful or undesirable effects on nonsmokers, a positive externality in production occurs when a neighbors home improvements increase the value of nearby properties).
E.9-12.4.6 Understands that a natural monopoly exists when it is cheaper for one supplier to produce all of the output in a market than for two or more producers to share the output (e.g., electric companies).
E.9-12.4.7 Understands that public service commissions typically regulate natural monopolies because people cannot rely on competition to control price and service levels in these cases.
E.9-12.4.8 Understands that when transaction costs (e.g., tariffs, costs of gathering or disseminating information on products, transportation costs paid by the consumer) decrease, more specialization and trading will occur.
E.9-12.5.1 Understands that personal income is influenced by changes in the structure of the economy, the level of gross domestic product, technology, government policies, production costs and demand for specific goods and services, and discrimination.
E.9-12.5.2 Understands the concept of supply and demand in the labor market (e.g., if wage or salary payments increase, workers will increase the quantity of labor they supply and firms will decrease the quantity of labor they demand).

E.9-12.5.3 Understands that for the functional distribution of income economists analyze what percentage of national income is paid out as wages and salaries, proprietors' income, rental income, and interest payments and trace that pattern of income distribution over time.
E.9-12.5.4 Understands that the personal distribution of income classifies the population according to the amount of income they receive, including transfer payments.
E.9-12.5.5 Understands that governments often redistribute income directly when individuals or interest groups are not satisfied with the income distribution resulting from markets, and that governments may also redistribute income indirectly as side-effects of other government actions that affect prices or output levels for various goods and services.
E.9-12.5.6 Understands that the standard measure of the unemployment rate is flawed (e.g., it does not include discouraged workers, it does not weigh part-time and full-time employment differently, it does not account for differences in the intensity with which people look for jobs).
E.9-12.5.7 Understands that many factors contribute to differing unemployment rates for various regions and groups (e.g., regional economic differences; differences in labor force immobility; differences in ages, races, sexes, work experiences, training and skills; discrimination).
E.9-12.5.8 Knows that economists do not define full employment as 100 percent employment of the labor force because there is always some unavoidable unemployment due to people changing jobs (i.e., frictional unemployment) or entering the labor force for the first time.
E.9-12.5.9 Understands frictional, seasonal, structural, and cyclical unemployment and that different policies may be required to reduce each.

Unit 3 – Macroeconomics: The Economy (11 weeks)

Ch. 10: Money
Ch. 11: Banking and the financial system
Ch. 12: Measuring economic performance
Ch. 13: Inflation, deflation, and unemployment
Ch. 14: Business cycles and economic growth
Ch. 15: Government and the economy: Fiscal and monetary policy
Ch. 16: The government budget: Spending and taxing

Essential questions: What is a barter economy and how did it lead to the use of money? What is money? What gives money its value? What are the functions of money? What does the money supply consist of? What is a Federal Reserve note? How many persons sit on the Board of Governors of the Federal Reserve System? What is the Fed? How does the check-clearing process work? What do total reserves equal? What are required reserves? Excess reserves? What do banks do with excess reserves? How does changing the reserve requirement change the money supply?

How does an open market operation change the money supply? How does a change in the discount rate change the money supply? What is GDP? Why are only final goods and services computed in GDP? What is omitted from GDP? What are the four sectors of the economy? How is GDP measured? What is per-capita GDP? What is real GDP? What is the consumer price index and how is it calculated? What is inflation and how is it measured? What causes inflation? What are the effects of inflation? What is deflation and what causes it? What are the four kinds of unemployment? How is aggregate demand related to the unemployment rate? What is a business cycle and how do economists predict them? What causes business cycles? What is the difference between absolute real economic growth and per-capita real economic growth? What causes economic growth? What is fiscal policy? What kind of fiscal policy does the government use to try to reduce unemployment? To reduce inflation? What are crowding out and crowding in? How can taxes affect the supply side of the economy? How is monetary policy used to reduce unemployment and inflation? What kinds of taxes exist? How do proportional, progressive, and regressive income taxation differ? How does the government spend its tax revenues? What is a fair tax? What is a balanced budget, a budget deficit, and a budget surplus? What is the relationship between deficits and the national debt?

Objectives/Desired Outcomes:
Students will be able to

- Define money and list its three functions.
- Explain how money evolved from a barter economy.
- Explain what is meant by *good money* and *bad money*.
- Explain how early bankers, who were goldsmiths, increased the money supply.
- Identify the components of the money supply.
- Explain the structure of the Federal Reserve System.
- Discuss how banks create demand deposits (money).
- Identify and explain the three ways the Fed can change the money supply.
- Define GDP
- Explain why certain goods and services are not counted in GDP.
- Compute GDP.
- Explain the difference between GDP and read GDP.
- Measure price changes between years.
- Define the consumer price index and explain how it is computed.
- Explain what inflation is and how we measure the inflation rate.
- Discuss causes of demand-side and supply-side inflation.
- Identify the general conditions for inflation to occur.
- Explain what deflation is.
- Explain the differences between frictional, structural, natural, and cyclical unemployment.
- Explain why full employment does not correspond to zero unemployment.

- Identify the relationship between a fall in aggregate demand and the unemployment rate.
- Describe the five stages of a business cycle.
- Explain how economists predict business cycle activity.
- Discuss the various causes of a business cycle.
- Explain why a country's economic growth rate is important.
- Identify a few of the causes of economic growth.
- Explain what fiscal policy is and how it can be used to reduce inflation and unemployment.
- Discuss crowding out and how it affects fiscal policy.
- Explain how monetary policy can be used to reduce inflation and unemployment.
- Discuss the relationship between erratic monetary policy and stagflation.
- Explain the difference between the benefits-received principle and the ability-to-pay principle.
- Discuss how proportional, progressive, and regressive income taxation differ.
- Explain the budget process.
- Explain the relationship between budget deficits and the national debt.
- Explain how the national debt may affect future generations.

McREL Standards:

E.9-12.4.1 Knows that the basic money supply is usually measured as the total value of coins, currency, and checking account deposits held by the public.

E.9-12.6.1 Understands that because citizens, government employees, and elected officials do not always directly bear the costs of their political decisions, sometimes policies have costs that outweigh their benefits for society.

E.9-12.6.2 Understands that most federal tax revenue comes from personal income and payroll taxes, and these taxes are used to fund social security payments, the costs of national defense, medical expenditures, and interest payments on the national debt.

E.9-12.6.3 Understands that most state and local government revenues come from sales taxes, grants from the federal government, personal income taxes, and property taxes, and are used to fund education, public welfare, road constructions and repair, and public safety.

E.9-12.6.4 Understands that government can use subsidies to help correct for insufficient output, use taxes to help correct for excessive output, or can regulate output directly to correct for over- or under-production or consumption of a product.

E.9-12.6.5 Understands that governments provide an alternative method to markets for supplying goods and services when it appears that the benefits to society of doing so outweigh the costs to society but that not all individuals will bear the same costs or share the same benefits of these policies.

E.9-12.6.6 Understands that incentives exist for political leaders to implement

policies (e.g., price controls, barriers to trade) that disperse costs widely over large groups of people and benefit relatively small, politically powerful groups of people.
E.9-12.6.7 Understands that few incentives exist for political leaders to implement policies that entail immediate costs and deferred benefits, even though these types of programs may be more economically effective.
E.9-12.7.1 Knows that an interest rate is a price of money that is borrowed or saved and that interest rates are determined by the forces of supply and demand.
E.9-12.7.2 Knows that the real interest rate is the nominal or current interest rate minus the expected rate of inflation.
E.9-12.7.3 Understands that higher interest rates provide incentives for people to save more and to borrow less, and vice versa.
E.9-12.7.4 Understands that real interest rates are normally positive because people must be compensated for deferring the use of resources from the present into the future.
E.9-12.7.5 Understands that riskier loans command higher interest rates than safer loans because of the greater chance of default on the repayment of risky loans.
E.9-12.7.6 Understands that higher interest rates reduce business investment spending and consumer spending; thus, policies that raise and lower interest rates can affect spending.
E.9-12.7.7 Understands that expectations of increased inflation may lead to higher interest rates.
E.9-12.8.1 Knows that fiscal policy involves the use of national government spending and taxation programs to affect the level of economic activity in order to promote price stability, maximum employment, and reasonable economic growth.
E.9-12.8.2 Understands the concepts of balanced budget, budget deficit, and budget surplus.
E.9-12.8.3 Understands that when the government runs a budget deficit, it must borrow from individuals, corporations, or financial institutions to finance the excess of expenditures over tax revenues.
E.9-12.8.4 Knows that the national debt is the total amount of money that the government has borrowed over all the years it ran deficits that have not been repaid.
E.9-12.8.5 Knows that monetary policy refers to actions by the Federal Reserve System that lead to changes in the amount of money in circulation and the availability of credit in the financial system.
E.9-12.8.6 Understands that fiscal policies take time to affect the economy and that they may be reinforced or offset by monetary policies and changes in private investment spending by businesses and individuals.
E.9-12.8.7 Knows that the major monetary policy tools that the Federal Reserve System uses are open market purchases or sales of government securities, increasing the discount rate charged on loans it makes to commercial banks, and raising or lowering reserve requirements for commercial banks.
E.9-12.8.8 Understands that when banks make loans, the money supply increases, and when loans are paid back, the country's money supply shrinks.
E.9-12.8.9 Understands that changes in the money supply lead to changes in interest rates and in individual and corporate spending which may influence the levels of spending, employment, prices, and economic growth in the economy.

Unit 4 – The Global Economy (9 weeks)

Ch. 17 Economic development
Ch. 18: International trade
Ch. 19: Comparative economic systems: Past, present, and future

Essential questions:
What is a less-developed country? What does per-capita GDP have to do with the infant mortality rate? How are living conditions related to the GDP? What are the obstacles to economic development? How is the population growth rate calculated? What is the dependency ratio? What is a criticism of the concept of the vicious circle of poverty? Does foreign aid promote or hinder economic development? What factors aid growth and development? What goods are major U.S. exports? U.S. Imports? What is comparative advantage? What are tariffs and quotas, and how do they affect price? What are the arguments for and against trade restrictions? What is the exchange rate? What does it mean to say a currency appreciates/depreciates in value? What is an economic system? What are the details of the capitalist vision? Socialist vision? What is Adam Smith's position on self-interest? According to Adam Smith, what is wealth equal to? What is the labor theory of value? What are Karl Marx's six stages of economic development? What is central economic planning and what is the case against it? How were prices set in the former Soviet Union? In the move from socialism to free enterprise, what is likely to happen at first to prices and jobs? What is infrastructure? What are the ways in which government can constrain economic activity?

Objectives/Desired Outcomes:
Students will be able to

- Explain the difference between economic growth and economic development.
- Describe the general economic situation in less-developed countries.
- Describe the obstacles to economic development.
- Describe the Malthusian view.
- Explain some of the ways less-developed countries become developed countries.
- Define *balance of trade*.
- Calculate which country has a comparative advantage in the production of which good.
- Discuss the effects of tariffs and quotas.
- State the arguments for and against trade restrictions.
- Explain the fixed and flexible exchange rate systems.
- Discuss the details of both the capitalist vision and the socialist vision.

- Outline the major differences between the free-enterprise and socialist economic systems.
- Discuss the ideas of Adam Smith and Karl Marx.
- Give some details of how command-economy socialism worked under the Soviet Union.
- Discuss some problems associated with transitioning from a socialist economic system to a free-enterprise economic system.
- Discuss a few of the constraints government can place on an economy.

McREL Standards:

E.9-12.9.1 Knows that inflation is usually measured by the Consumer Price Index (CPI) which shows the increases or decreases in price level from one year to another.

E.9-12.9.2 Knows the difference between "nominal" GDP (i.e., GDP stated in current dollars where an increase in GDP may reflect not only increases in the production of goods and services, but also increases in general prices) and "real" GDP (i.e., GDP which has been adjusted for price level changes).

E.9-12.9.3 Knows the factors upon which a country's GDP depends (e.g., quantity and quality of natural resources, size and skills of labor force, size and quality of capital stock).

E.9-12.9.4 Understands the economic growth is a sustained rise in GDP, which results from investments in human and physical capital, research and development, technological change, and improved institutional arrangements and incentives.

E.9-12.9.5 Understands that economic growth can alleviate poverty, raise standards of living, create new employment and profit opportunities in some industries, but can also reduce opportunities in other industries.

E.9-12.9.6 Understands that inflation creates uncertainty because it affects different groups differently (e.g., inflation hurts people on fixed incomes, but helps people who have borrowed money at a fixed rate of interest) and because it causes people to devote resources to protect themselves from inflation.

E.9-12.9.7 Knows that inflation occurs (and/or employment increases) when money supply or desired expenditures for consumption, investment, government spending, and net exports are greater than the value of a nations output of final goods and services, and vice versa (i.e., inflation decreases when these expenditures are less than the value of output).

E.9-12.9.8 Understands that government policies designed to reduce unemployment (e.g., increasing federal spending, reducing taxes) may increase inflation, and vice versa.

E.9-12.10.1. Understands that trade between nations would not occur if nations had the same kinds of productive resources and could produce all goods and services at the same real costs.

E.9-12.10.2. Knows that a nation has an absolute advantage if it can produce more of a product with the same amount of resources than another nation, and it has a comparative advantage when it can produce a product at a lower opportunity cost than another nation.

E.9-12.10.3. Knows that comparative advantages change over time because of changes in resource prices and events that occur in other nations.

E.9-12.10.4. Understands that a change in exchange rates changes the relative price of goods and services traded by the two countries and can have a significant effect on the flow of trade between nations and on a nations domestic economy.

E.9-12.10.5. Knows that a nation pays for its imports with its exports.

E.9-12.10.6. Understands that public policies affecting foreign trade impose costs and benefits on different groups of people (e.g., consumers may pay higher prices, profits in exporting firms may decrease), and that decisions on these policies reflect economic and political interests and forces.

Assessments

Assignments and homework quizzes
Tests

Grading:

Semester exams will count for 20% of final grade. The remaining grade will be determined as follows:

Assignments & Homework Quizzes:	**30%**
Tests:	**70%**