

**Economic Problems and Public Policies**

ECON 309 – 004 &amp; 005, Fall 2020

**Instructor:** Joshua K. Bedi**Class Time:** Section 004: Mondays 12:00 pm – 1:15 pm; Section 005: Wednesdays 12:00 pm – 1:15 pm. The rest of the material will be posted online asynchronously for both sections to study.**Class Location:** Enterprise Hall, 274**Office Hours:** I will hold virtual office hours Mondays 1:30 pm – 3:30 pm and Wednesdays 1:30 pm – 3:30 pm. Of course, I am also always available through email to answer questions, and I will be particularly responsive through email during my office hours.**Email:** [jbedi2@masonlive.gmu.edu](mailto:jbedi2@masonlive.gmu.edu)**Course Overview:**

This course will study economic problems in light of real-world policy issues. We will begin with a review of core economic concepts, using real-world examples as illustrations. Other topics covered will include environmental issues, taxes, immigration, education, and entrepreneurship.

**Required Reading:**

Because of COVID-19, I won't be assigning any required texts for students to buy. However, all listed readings are required and can be found online for free. If not online for free, readings will be provided by me.

**Grading:**

The following assignment weights are my contract with you. While I will not accept late work and will not provide make-up opportunities, I will also not deviate from this weighting system. However, if you miss a midterm exam because of an unforeseen emergency (medical emergencies, death in the immediate family, etc.), we will plan a make-up date that works for both of us, so I can proctor. You must provide detailed documentation, like a note from a doctor, for this to be accepted, and I must be provided ample notice. I cannot change the final exam date, as these dates are set by the registrar.

Weekly Reaction Papers: 20%

Final Exam: 30%

Midterm 1: 25%

Midterm 2: 25%

The grading scale is as follows:

A+ = 97-100

A = 94-96

A- = 90-93

B+ = 86-89

B = 84-85

B- = 80-83

C+ = 76-79

C = 74-75

C- = 70-73

D+ = 66-69

D = 64-65

D- = 60-63

F = Below 60

### **Make-Up Policy**

Because of COVID-19, absences may be more common this semester. If you require a prolonged absence from class because of health reasons, I will allow make-up work for full credit as soon as you are well. I will, of course, need documented evidence of sickness if a student needs to take a prolonged absence.

### **Weekly Reaction Papers**

Each class, starting the second week, every student is required to turn in at least a 2-page typed, double-spaced reaction to material for the previous week. This will be to make sure each of you are keeping up with class material and understanding important concepts. These reactions can be criticisms or thoughts about the assigned class material or even questions about the content of material. These reactions are NOT intended to be summaries. The last reaction paper will be due the last week of class.

### **Disability Resource Centre**

No student should be denied educational access because of a disability. If you are a student with a disability and you need academic accommodations, please email me, and contact Disability Services at 703-993-2474 or ods.gmu.edu. All academic accommodations must be arranged through that office. If you do require accommodations, it is up to you to provide both me and ODS adequate time to provide accommodations.

### **Technology Needs**

Because of COVID-19, the use of technology for course work has become more important. If a student finds himself or herself in need of technological assistance, please speak to me. I can direct students to resources like George Mason's Stearns Center for Teaching and Learning.

### **Honour Code**

Students must know and follow the George Mason University Honour Code. If I catch you cheating on an assignment, I will, at the very least, grant you a 0 on that assignment, and, at the most, I will grant you a 0 for the entire course. I lean towards the latter option, because the first time a student is caught cheating (much like the first time a thief is caught stealing) is rarely the first time that student has cheated. If at any time you are unsure about the Honour Code implications for a particular assignment, ask for clarification.

### **Schedule**

Unlike the grading weights for this course, the schedule and readings are subject to change at my discretion, but I promise to leave you ample time to readjust your schedules if I decide to make such a change. Material will be posted to Blackboard every week on Monday.

### **Week 1: What is Economics? What is the Economic Problem?**

#### **Sections 004 & 005: August 24<sup>th</sup> – August 30<sup>th</sup>**

- What is economics?
- What is the economic problem?
- What should economists do?
- Application: Making a toaster by yourself
  - [https://www.youtube.com/watch?v=5ODzO7Lz\\_pw](https://www.youtube.com/watch?v=5ODzO7Lz_pw)

#### Readings:

Ludwig von Mises, *Human Action* (Introduction & Chapter One)

<https://mises.org/library/human-action-0>

James Buchanan, *What Should Economists Do?*

Friedrich Hayek, *The Use of Knowledge in Society*

Leonard Read, *I, Pencil*

## **Week 2: Core Concepts**

### **Sections 004 & 005: August 31<sup>st</sup> – September 6<sup>th</sup>**

- Subjective Value, Rationality, and Revealed Preferences
- Positive and Normative Economics
- Opportunity Cost
- Comparative Advantage
- Gains from Trade: Example
- Application: Trade Game (Bring some candy if you want)

#### Readings:

R. A. Radford, *The Economic Organization of a P.O.W. Camp*

## **Week 3: Supply & Demand**

### **Section 004: September 14<sup>th</sup> – September 20<sup>th</sup>; Section 005: September 7<sup>th</sup> – September 13<sup>th</sup>**

#### **\*Monday September 7<sup>th</sup> – Labour Day (School Closed)**

- Supply and Demand on a graph
  - Representations of marginal cost (opportunity cost) and marginal benefit (value)
  - Important difference between Demand/Supply and Quantity Demanded/Quantity Supplied
- Determinants of Supply and Demand
- Assumptions underlying our models of perfect competition
- Restrictions on Supply and Demand
  - Price Floors and Price Ceilings
  - Quotas
- Application: Price Floors – Minimum Wages; Price Ceilings – Usury Laws
  - The inseparability of positive and normative economics

#### Readings:

Milton Friedman, *The Methodology of Positive Economics*

## **Week 4: The Economics of Risk and Information**

### **Section 004: September 21<sup>st</sup> – September 27<sup>th</sup>; Section 005: September 14<sup>th</sup> – September 20<sup>th</sup>**

- Revisiting the perfect information assumption
- Probability
- Expected Value
- Search Theory
  - Application: Dating
- Asymmetric Information
  - Application: Akerlof's Model of Lemons
- Insurance Markets, Moral Hazard, and Adverse Selection
  - Application: Seat Belts and Motorcycles

Readings:

David Hemenway, *Propitious Selection*

Jennifer Doleac and Anita Mukherjee, *The Moral Hazard of Lifesaving Innovations: Naloxone Access, Opioid Abuse, and Crime*

**Week 5: Midterm I**

**Section 004: September 28<sup>th</sup> – October 4<sup>th</sup>; Section 005: September 21<sup>st</sup> – September 27<sup>th</sup>**

**Week 6: Externalities, Rivalry, and Excludability**

**Section 004: October 5<sup>th</sup> – October 11<sup>th</sup>; Section 005: September 28<sup>th</sup> – October 4<sup>th</sup>**

- Private and Social Benefits and Costs
- Rivalry and Excludability
  - In a Box
  - On a Graph
- Externalities
  - On a Graph
- Correcting for Externalities

Readings:

Harold Demsetz, *Toward a Theory of Property Rights*

**Week 7: Property Rights**

**Section 004: October 12<sup>th</sup> – October 18<sup>th</sup>; Section 005: October 5<sup>th</sup> – October 11<sup>th</sup>**

**\*Monday October 12<sup>th</sup> – Fall Break (Monday Classes Meet Tuesday October 13<sup>th</sup>)**

- Property rights as an alternative to correcting for externalities
- When are property rights established?
  - Demsetz article
- Coase Theorem
  - Application: Houston, TX
- Secure vs. Insecure Property Rights
  - Application: Propertyless in Peru

Readings:

Carrie Kerekes and Claudia Williamson, *Propertyless in Peru, Even with a Government Land Title*

**Week 8: Taxes**

**Section 004: October 19<sup>th</sup> – October 25<sup>th</sup>; Section 005: October 12<sup>th</sup> – October 18<sup>th</sup>**

- Types of Taxes
- Effects of Taxes on Supply and Demand
- Tax Shifting
  - Tax Incidence (Tax Burden) and Tax Impact
  - Tax Burden and Elasticities
  - What Determines Elasticity?
- Application: Taxing Cigarettes and Taxing Soda
- Application: Taxing Corporations to Help Consumers

Readings:

Philip DeCicca, Donald Kenkel, and Feng Liu, *Who Pays Cigarette Taxes? The Impact of Consumer Price Search*

## **Week 9: Macroeconomics and Development**

**Section 004: October 26<sup>th</sup> – November 1<sup>st</sup>; Section 005: October 19<sup>th</sup> – October 25<sup>th</sup>**

- GDP
  - What Makes Up GDP?
  - Drawbacks of GDP?
- Uncomfortable Government Accounting
  - Government Budget Equation
  - Limitations to Government Borrowing
- The Solow Model
  - Determinants of Growth: Capital, Labour, and A
  - Why Doesn't FDI Flow to Poor Countries?
- Application: Convergence or Conditional Convergence?
  - Baumol's Essay and Problems

### Readings:

William Baumol, *Productivity Growth, Convergence, and Welfare: What the Long-Run Data Show*

## **Week 10: Midterm II**

**Section 004: November 2<sup>nd</sup> – November 8<sup>th</sup>; Section 005: October 26<sup>th</sup> – November 1<sup>st</sup>**

## **Week 11: Immigration**

**Section 004: November 9<sup>th</sup> – November 15<sup>th</sup>; Section 005: November 2<sup>nd</sup> – November 8<sup>th</sup>**

- Immigration on a graph
- Emigration on a graph
- Immigration restrictions on a graph
- Cases for immigration restrictions
  - Economic
  - Social/Cultural
- Cases against immigration restrictions
  - Economic
  - Social/Cultural
- Application: Open borders with Puerto Rico

### Readings:

Michael Clemens, *Economics and Emigration: Trillion-Dollar Bills on the Sidewalk?*

## **Week 12: Education**

**Section 004: November 16<sup>th</sup> – November 22<sup>nd</sup>; 005: November 9<sup>th</sup> – November 15<sup>th</sup>**

- Education as a human capital investment
  - Externalities
- Education as a signal
  - Externalities
- Alternatives to public education
- Application: Quality, Quantity, or Pre-existing Ability? The case of Latin America

### Readings:

Eric Hanushek and Eric Woessman, *Schooling, Cognitive Skills, and the Latin American Growth Puzzle*

## **Week 13: Entrepreneurship**

**004: November 23<sup>rd</sup> – November 29<sup>th</sup>; 005: November 16<sup>th</sup> – November 22<sup>nd</sup>  
\*November 25<sup>th</sup> – 29<sup>th</sup>: Thanksgiving (No Class)**

- What is entrepreneurship?
  - Broad definition
  - More find examples
- Schumpeterian Entrepreneurship
  - Dis-equilibrating
- Kirznerian Entrepreneurship
  - Equilibrating
- Entrepreneurship as Betting on Ideas
- Baumolian Entrepreneurship
  - Productive
  - Unproductive
  - Destructive
- Entrepreneurial Intention
  - Opportunity
  - Necessity
- Application: Netflix

Readings:

William Baumol, *Entrepreneurship: Productive, Unproductive, and Destructive*  
Joshua Bedi, Shaomeng Jia, and Claudia Williamson, *Brain Gains: A Cross-Country Study  
on the Relationship Between Remittances and Entrepreneurship*

**Week 14: Public Choice**

**004 & 005: November 30<sup>th</sup> – December 5<sup>th</sup>**

- Traditional Public Choice
- Wittman's Response
- Caplan's Response
- Application: Taking Your Car to a Mechanic vs. Voting

Readings:

Gordon Tullock, *The Welfare Costs of Tariffs, Monopolies, and Theft*  
Donald Wittman, *Why Democracies Produce Efficient Results*  
Bryan Caplan, *Rational Irrationality and the Micro-foundations of Political Failure*

**Final: December 14<sup>th</sup> 10:30 am – 1:15 pm**

**Other Important Dates:**

Last Day to Add: August 31<sup>st</sup>

Last Day to Drop: September 15<sup>th</sup>