

ECONOMICS 2

INTRODUCTION TO ECONOMICS

Professor Christina Romer
Professor David Romer

COURSE INFORMATION AND PROCEDURES

COURSE DESCRIPTION

Economics 2 provides an introduction to both *microeconomics*, the study of consumer and firm behavior, markets, international trade, and market failures; and *macroeconomics*, the study of economic growth, unemployment, and inflation. Students learn both economic theory and some of the empirical evidence behind the theory. Special emphasis is placed on the application of economic tools to contemporary economic problems and policies.

Economics 2 satisfies all of the same requirements as Economics 1, and either can serve as a prerequisite for any upper-level course that requires introductory economics. Economics 2 differs from Economics 1 in that it has three hours of lecture and one hour of discussion section per week, instead of two hours of lecture and two hours of section. Some of the extra lecture time is used to reinforce concepts with additional examples and explanation (much as one would do in section), and some is used to cover additional topics and go into more depth. Economics 2 is recommended for students planning to major in economics, and for anyone who would like a more comprehensive introductory course.

READINGS

The required textbook for the course is *Principles of Economics*, Sixth Edition, by Robert H. Frank, Ben S. Bernanke, Kate Antonovics, and Ori Heffetz. It is available through the ASUC store at a greatly reduced price for the Berkeley community. There are also a handful of economics research articles that are required reading and available online through the Berkeley library.

LECTURE AND SECTIONS

Economics 2 is a four-unit course. There are three hours of lecture per week (Tuesday and Thursday, 3:30–5:00 in 155 Dwinelle Hall) and one hour of discussion section. Incomplete slides for lecture will be available before class for those who would like to print them out and take notes that way. Discussion sections are led by graduate student instructors and are devoted primarily to highlighting important topics from lecture, reviewing difficult material, working through problems, and answering questions.

We have a strict ***no electronics policy*** for both lecture and section. Please keep all phones, laptops, and tablets off and put away. We want students to be fully engaged and participating actively in lecture and section.

COURSE WEBSITE

Slides, handouts, announcements, and assignments will be posted on the course website:

<https://www.econ.berkeley.edu/course/2016-17/spring/economics-2>.

ASSIGNMENTS

There are two midterm examinations in the course and six graded problem sets. There is also a final exam that will be given on Friday, May 12, 7–10 p.m. There will be no make-up final. ***If you cannot take the final at the scheduled time, do not take this course.***

The midterm exams will cover material up to and including the preceding lecture. The second midterm will focus on the material covered since the first midterm. There are no make-up midterms. Students who miss midterms with excuses meeting University standards will have their other exams weighted proportionately more.

There are six problem sets. You may work with other students on the problem sets, but your answers must be in your own words and handwritten. You also must list the other students you worked with on your answers. The problem sets are due at the beginning of lecture on the date given on the syllabus. Problem sets will not be accepted after the first 10 minutes of class. The problem sets will be graded on a scale of 1 to 10.

GRADING

Your problems sets will be graded by your graduate student instructor. The two midterm exams and the final exam will be graded by all of the GSIs together. The course grade will be calculated as follows: (1) the three-hour final examination is worth 40%, (2) the two midterm examinations are each worth 24%, and (3) the six problem sets are worth 12%.

Because the exams are graded by the GSIs collectively, your individual GSI cannot change the score. If you believe a question has been graded incorrectly, you should submit your concern in writing (along with the exam) to your GSI within one week of getting it back. He or she will forward your concern to the GSI who graded that particular question.

The course may be taken Pass/Not Pass, if you are otherwise free to do so. Pass/Not Pass students are expected to do the same work as graded students and will receive scores on all assignments. If their final course grade is a C– or better, they will be awarded a Pass.

INSTRUCTOR CONTACT INFORMATION AND OFFICE HOURS

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Professor David Romer
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Please use email only for administrative issues; substantive questions about the material are best handled in office hours. Professor office hours for the course will be held in 683 Evans from 1:00–3:00 on Wednesdays. GSI office hours are posted on the course website.

COURSE ASSISTANT

The course assistant is Gillian Brunet. She is in charge of approving excused absences from a midterm exam, and for arranging accommodation for students with letters from the Disabled Students' Program. You may email her about these administrative matters at gbrunet@berkeley.edu. So that we can make necessary arrangements, letters requesting accommodation must be received by February 10th.

LECTURE OUTLINE AND READINGS

The chapters listed are from *Principles of Economics*, Sixth Edition, by Frank, Bernanke, Antonovics, and Heffetz. The entire chapter is assigned unless specific pages are given. Appendixes to chapters are not assigned unless noted. The articles listed are available at the links given through the Berkeley library. Again, the entire article is assigned unless specific pages are given.

I. FUNDAMENTAL ECONOMIC PRINCIPLES

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|--------|---------|--|
| Tues. | Jan. 17 | Scarcity and Choice
Chapter 1, including the appendix |
| Thurs. | Jan. 19 | Comparative Advantage and the Gains from Specialization
Chapter 2 (pp. 33–49) |

II. THE MARKET SYSTEM

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| Tues. | Jan. 24 | Supply and Demand Framework
Chapter 3 (pp. 59–82)
<i>Hand out Problem Set 1</i> |
| Thurs. | Jan. 26 | Extensions of Supply and Demand Analysis
Chapter 4 |

III. THE BEHAVIOR OF HOUSEHOLDS AND FIRMS

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| Tues. | Jan. 31 | Consumers and Utility Maximization
Chapter 5
“Grandmothers and Granddaughters: Old-Age Pensions and Intra-household Allocation in South Africa” by Esther Duflo, www.jstor.org/stable/pdf/10.2307/3990043.pdf (pp. 1–16 and 21–22).
<i>Problem Set 1 Due</i> |
| Thurs. | Feb. 2 | Firms and Profit Maximization
Chapter 6 (skip Example 6.4, pp. 164–166) |

IV. THE INVISIBLE HAND AND EFFICIENCY

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| Tues. | Feb. 7 | Competitive Firms in the Long Run
Chapter 7 (pp. 175–187)
<i>Hand out Problem Set 2</i> |
| Thurs. | Feb. 9 | Welfare Analysis
Chapter 7 (pp. 191–203)
“The Misallocation of Housing under Rent Control” by Edward Glaeser and Erzo Luttmer, http://www.jstor.org/stable/pdf/10.2307/3132277.pdf (pp. 1027–1032 and 1036–1042). |

V. MARKET FAILURES

- Tues. Feb. 14 Monopoly
Chapter 8 (pp. 209–225)
Problem Set 2 Due
- Thurs. Feb. 16 Externalities
Chapter 10 (pp. 273–285)
- Tues. Feb. 21 *First Midterm Examination***

VI. INTERNATIONAL TRADE

- Thurs. Feb. 23 Comparative Advantage and International Trade
Handout
- Tues. Feb. 28 Supply and Demand Model of Trade and Trade Policy
Handout
Hand out Problem Set 3

VII. LABOR MARKETS AND INEQUALITY

- Thurs. Mar. 2 Labor and Wages
Chapter 12
“The Impact of the Mariel Boatlift on the Miami Labor Market” by David Card, <http://www.jstor.org/stable/pdf/10.2307/2523702.pdf>.
- Tues. Mar. 7 Rising Inequality
Chapter 17 (pp. 469–473)
“Income Inequality in the United States, 1913–1998” by Thomas Piketty and Emmanuel Saez, <http://www.jstor.org/stable/pdf/25053897.pdf>.
Problem Set 3 Due

VIII. INTRODUCTION TO MACROECONOMICS

- Thurs. Mar. 9 Macroeconomic Variables and Issues
Chapters 15 and 16

IX. LONG-RUN MACROECONOMIC FUNDAMENTALS

- Tues. Mar. 14 Technological Change and Economic Growth
Chapter 18
“Do Real-Output and Real-Wage Measures Capture Reality?” by William Nordhaus, <http://www.nber.org/chapters/c6064.pdf>
(pp. 29–39, 44–60, and 62–65).
Hand out Problem Set 4

Thurs.	Mar. 16	Capital and Interest Chapter 19 (pp. 534–544)
Tues.	Mar. 21	Saving and Investment in the Long Run Chapter 19 (pp. 524–534 and 544–548) Problem Set 4 Due
Thurs.	Mar. 23	Second Midterm Examination
Tues.	Mar. 28	No Class, Spring Break
Thurs.	Mar. 30	No Class, Spring Break
Tues.	Apr. 4	Employment and Unemployment in the Long Run Chapter 17 and Chapter 25 (pp. 700–704)

X. SHORT-RUN MACROECONOMIC FLUCTUATIONS

Thurs.	Apr. 6	Planned Aggregate Expenditure and Output Chapters 21 (pp. 575–589) and 22 (pp. 595–613) Hand out Problem Set 5
Tues.	Apr. 11	Fiscal Policy Chapter 22 (pp. 614–623) “The Macroeconomic Effects of Tax Changes” by Christina Romer and David Romer, http://www.jstor.org/stable/pdf/10.2307/27871230.pdf (pp. 763–787 and 798–800).
Thurs.	Apr. 13	Financial Markets and Monetary Policy Chapter 23 Problem Set 5 Due

XI. INFLATION

Tues.	Apr. 18	Inflation and the Behavior of the Federal Reserve Chapter 24 (p. 674 only)
Thurs.	Apr. 20	Inflation Adjustment and the Return to Full Employment Hand out Problem Set 6

XII. INTERNATIONAL MACROECONOMICS

Tues.	Apr. 25	Exchange Rates and the Balance of Payments Chapter 26 (pp. 711–724)
Thurs.	Apr. 27	Determinants of Net Exports Chapter 26 (pp. 730–740) Problem Set 6 Due

XIII. REVIEW AND SUMMARY

Tues. May 3 Lessons and Tools of Economics

Fri. May 12 *Final Examination 7–10 P.M.*

ADDITIONAL REQUIRED READINGS

- Duflo, Esther. 2003. "Grandmothers and Granddaughters: Old-Age Pensions and Intrahousehold Allocation in South Africa." *World Bank Economic Review* 17 (No. 1): 1–25. www.jstor.org/stable/pdf/10.2307/3990043.pdf
- Glaeser, Edward L., and Erzo F. P. Luttmer. 2003. "The Misallocation of Housing under Rent Control." *American Economic Review* 93 (September): 1027–1046. <http://www.jstor.org/stable/pdf/10.2307/3132277.pdf>
- Card, David. 1990. "The Impact of the Mariel Boatlift on the Miami Labor Market." *Industrial and Labor Relations Review* 43 (January): 245–257. <http://www.jstor.org/stable/pdf/10.2307/2523702.pdf>
- Piketty, Thomas, and Emmanuel Saez. 2003. "Income Inequality in the United States, 1913–1998." *Quarterly Journal of Economics* 118 (February): 1–39. <http://www.jstor.org/stable/pdf/25053897.pdf>
- Nordhaus, William D. 1997. "Do Real-Output and Real-Wage Measures Capture Reality? The History of Lighting Suggests Not." In *The Economics of New Goods* edited by Timothy F. Bresnahan and Robert J. Gordon. Chicago: University of Chicago Press for NBER, pp. 29–66. <http://www.nber.org/chapters/c6064.pdf>
- Romer, Christina D., and David H. Romer. 2010. "The Macroeconomic Effects of Tax Changes: Estimates Based on a New Measure of Fiscal Shocks." *American Economic Review* 100 (June): 763–801. <http://www.jstor.org/stable/pdf/10.2307/27871230.pdf>