

EIB 201: INTRODUCTION TO ECONOMIC THEORY

Summer 2009

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Aims and learning outcomes.

The aim of this course is to give you a firm grasp of the key analytical tools used by economists, as well as an ability to use these tools to assess economic issues of current interest. Although the course assumes no prior knowledge of economics, it is a 'fast-track' course and requires concentrated effort throughout. There is a substantial amount of material to cover and you need to keep on top of it as we progress. If you do, you will finish the course well prepared to move on to more advanced courses in economics.

Course Outline

Microeconomics

1. The fundamental problems of economics: scarcity and choice.
2. Key concepts in economics: opportunity cost, the production possibility frontier, specialization and exchange, and comparative advantage. Economic systems: market based and centrally planned economies.
3. The market economy, demand and supply, and price determination. The analysis of demand. Own price, income and cross-price elasticity of demand. The analysis of supply. Elasticity of supply. Bringing demand and supply together. Alternative means of rationing.
4. Consumer behavior: utility analysis, revealed preference, and indifference curve analysis.
5. Producer behavior: profit maximization and alternative theories of the firm, the analysis of costs, the law of diminishing returns, short-run and long-run cost curves, economies of scale and scope. Combining factor inputs and isoquants.
6. Market structure: perfect competition, monopoly, monopolistic competition and oligopoly. Game theory. Market power: regulation and anti trust.
7. Factor markets and rewards: rent, profits, and wages. The demand for and supply of labor.

8. Welfare economics and market failure. Government failure and public choice.
9. Remaining issues: externalities and the environment, taxation and resource allocation, poverty and inequality.

Macroeconomics

1. What is macroeconomics? Key macroeconomic aggregates: GDP, unemployment and inflation. Microeconomic foundations of macroeconomics.
2. Macroeconomic policy objectives: employment, inflation, economic growth and the balance of payments.
3. Aggregate demand: consumption, investment, government expenditure and net exports.
4. Macroeconomic equilibrium. A simple model of income determination. The behavior of the economy in disequilibrium. Changes in income and multiplier analysis. The aggregate demand curve.
5. Aggregate supply and the aggregate supply curve. Bringing aggregate demand and supply together.
6. Managing aggregate demand. The evolution of macroeconomic theory and policy. Fiscal and monetary policy and the debates surrounding them.

Reading

There are numerous textbooks available from which to choose. One which does the job well is:

William J Baumol and Alan S Blinder, *Economics: Principles and Policy*, (most recent edition).

The accompanying workbook is also useful and provides you with a good opportunity to test your understanding of the material we cover.

Assessment

A final closed book exam will account for 60 per cent of the marks. There will also be two closed book mid term tests that account for 15 and 25 per cent of the marks respectively. Occasional problem sets, work sheets and informal quizzes will also be used to aid self-assessment.