

Principles of Economics (ECO 2201)

SYLLABUS, Fall 2017.

Instructor: HORVÁTH László CUB, Department of Centre of Economic Thought)

Textbook: Lipsey-Courant-Purvis-Steiner: ECONOMICS Tenth Edition

Assessment:

Midterm written exam: 40%

Final written exam: 40%

Two short written tests: 10% each

Grades will be awarded in accordance with the McDaniel College grading system.

Course description:

This is an introductory course that gives you insight into how an economy functions, e. g., how prices are determined in the market, how firms decide what and how much to produce, how money is created by the banking system, how economic policy affects the economy etc. Most of the terms used in economics (such as money, price, profit, costs, interest rate, inflation, GDP) are also used in everyday life, or can be heard in the news. Now you will learn their deeper meaning and the relationships among them, and you will be able to interpret and explain -at a basic level -economic phenomena and economic policy issues.

Course outline:

Week 1 *An overview of the branches of economics and of the market economy*

Economics as a science. Micro- and macroeconomics.

Economic agents and markets. Market economy.

(Chapter 3)

Week 2 *Household consumption behaviour*

Illustration of the consumer's preferences and his choice set: the indifference curve the budget line.

The income and substitution effect of a price change; derivation of the demand curve. Consumers' surplus and the paradox of value. The indifference curve. Illustration of the consumer's choice. Utility maximization.

(Chapter 7 and pages 151-158 and 167-169 from Chapter 8.)

Week 3 *Elasticity*

Definition of elasticity. Arc elasticity and point elasticity. Price elasticity of demand; the direction of the change in the total expenditure on a given good caused by a change in the price. Income elasticity of demand. Normal goods and inferior goods. Cross elasticity of demand and relation between commodities: complementary and substitute commodities. (Chapter 5)

Week 4 *Production and costs*

Inputs, costs, and profits. The short-run production function. Total, average, and marginal products.

Total, average, and marginal costs in the short run. (Chapter 9)

Week 5 *Determination of output and price in a competitive market*

The model of perfect competition. Optimal output for a competitive firm. At what levels of price is it worth to produce at all in the short run? The short-run supply curve of a firm. The short-run industry supply curve; determination of the short-run equilibrium price. The long-run industry supply curve.

(Chapter 10)

Week 6 *Demand, supply, and price*

Definition of quantities demanded and supplied. Stock and flow variables.

What determines demand? Demand as function of price, other things being equal; the demand curve. Changes in other influencing variables; shifts in the demand curve.
The supply curve. Determination of price by demand and supply. (Chapter 4, without Appendix)

Monopoly

Marginal revenue. Short-run monopoly equilibrium. Cartels and monopolies. Price discrimination. (Chapter 11)

Week 7 *Revision. Midterm exam*

Week 8 *Introduction to macroeconomics. The measurement of macroeconomic variables*

Key macroeconomic phenomena. National income accounting: Gross Domestic Product as a measure of aggregate output; calculating GDP from the output side, the expenditure side, and the income side. GDP and GNP. Real and nominal measures. (Chapters 21-22)

Week 9 *Determination of aggregate expenditure and income in an economy without government and foreign trade*

Expenditures and demand. Consumption and investment as components of demand.
Consumption and saving. The consumption function. The demand function and the determination of the equilibrium level of income. Equality between desired saving and desired investment in the equilibrium. Equilibrium income as demand-determined income. Autonomous expenditures as determining factors of income. The multiplier.
The paradox of thrift. The difference between micro- and macro-level relationships. (Chapter 23)

Week 10 *Determination of aggregate expenditures and income in an open economy with government*

Government expenditures on goods and services as autonomous expenditures. The effect of taxation on expenditures through the consumption function. Determination of income. The effect of the tax rate on the multiplier. Budget surplus. The effect of a change in government expenditures, in the autonomous tax, and in the tax rate on the budget surplus. Import function and autonomous exports; their effect on income.
The leakages-injections approach. Interpretation of the identity of national saving with national asset formation. (Chapter 24)

Week 11 *Money and banking*

What is money? The functions and types of money. Money creation by the central bank. Money creation by the commercial banks. The money multiplier.
The control of money supply by the central bank. (Chapter 27)

Week 12 *Demand for money and the determination of the rate of interest and aggregate demand*

The link between the rate of interest and the price of bonds. Motives for holding money. The determination of interest rate by the supply of and demand for money.

Aggregate demand, aggregate supply, and the price level

The effect of price level on real aggregate demand through the rate of interest and net exports (assuming fixed exchange rates). Determination of income and price level with the AS and AD curves. Illustration of the effect of economic (fiscal and monetary) policies in the AS-AD framework. (Chapter 28)

Week 13 *Inflation and unemployment*

The role of expectations in sustaining wage and price inflation after an initial increase in the price level. The influence of the level (rate) of unemployment on wage inflation. Inflation and monetary policy. (Chapter 32)

Week 14 *Examination week*