

Course Outline for ‘Principles of Economics’ (EC1101) – 2008/09

Course Code and Title

Principles of Economics EC1101

Course Leader

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Aims

EC1101 is a **first year** course in microeconomics and macroeconomics. The course is suitable for students with or without A Level economics or equivalent. It aims to cover the basic theories of microeconomics (the behaviour of individuals and firms) and macroeconomics (that of the economy as a whole). Microeconomics is taught in the Autumn term, macroeconomics in the Spring.

Learning Outcomes

Upon completion of the course you should:

- understand the theoretical basis to demand and supply, and the role of government intervention in individual markets
- understand how the goods and assets markets underpin growth, inflation and unemployment, and the role that fiscal and monetary policy play in macroeconomic management
- be able to solve and manipulate a variety of simple diagrammatic and algebraic models in micro- and macroeconomics
- be able to identify the applications of, limitations to, and improvements in the models learned

Course Delivery

The course will be delivered through a weekly two-hour **lecture** and a weekly one-hour **seminar**. Specific learning outcomes and reading are prescribed for each week.

Seminar content will be based upon the previous week’s lecture. Seminar groups will be formed once classes start. Please find your group, and make it a point to attend regularly and participate actively. **Unsatisfactory attendance could result in your being declared ‘Incomplete’ for the entire course.**

Weekly problem sets and other important information and materials are posted on this course's MOODLE page. It is my expectation that you visit this page about once a week. The address is:

moodle.rhul.ac.uk

The lecturer is available for consultation during advertised office hours. The seminar leader can be consulted at the end of sessions and is the easiest and best first point of contact for any queries about material covered in the course.

The Department operates a Tutorial program to support your learning in this course. It is available on a sign-up basis. Participation is not obligatory, but if you sign up you are expected to attend. See the relevant notice board in the Horton Building for details and a sign-up sheet, or ask in Department Office.

In addition to the hours you spend in lectures and seminars each week my expectation is that during term you will devote a **minimum of 6 hours private study time** to this course per week, more during reading weeks. This time will be used on reading, preparing for seminars, revising and improving notes *etc.* If you do not commit this amount of time then you will probably fall behind and perform poorly – this applies whether or not you have studied economics before. Supplementary reading and study will be assigned for the Christmas break.

Assessment

- **3-hour unseen examination contributing 100% of the final mark**, taken during the Exam term. The exam will test your knowledge and understanding of material covered in the course; your ability to manipulate diagrammatic and algebraic versions of the models you have learned; your ability to apply and criticize models in ‘real’ economic situations.
- You must answer **four** exam questions from **six** in your paper, including a compulsory micro- question and a compulsory macro- question.
- Formative assessment during the year will consist of two pieces of written work (essays) and two tests. Dates are advertised in the Department of Economics Student Handbook. You will receive standardised feedback some coursework. You must pass **at least three** of the four items of work in order to be entered for the final exam. Aim to do well, not just to pass.
- Use your lecture notes, seminar exercises, textbook and if possible the workbook, for regular study, and preparation for tests and exams. You should also learn to use associated websites (see below).

Reading

This is a textbook based course. Your textbook and accompanying workbook are:

- Sloman, John (2006, 6th Edition) *Economics*: Prentice-Hall
- Sloman, John and Mark Sutcliffe (2006, 6th Edition) *Economics: Student Workbook and Reader*

You will use the textbook every week and you are strongly advised to own a copy. The library holds a number of copies for occasional use.

On occasion you may wish to consult other introductory texts, and the library holds multiple copies of all of the most popular. During your first year you are urged to form the habit of reading a quality **newspaper**.

In addition, familiarize yourself with useful web sources. The publishers of the course text operate a companion website

www.pearsoned.co.uk/sloman

This offers additional study material, including **self-test questions, worked maths examples, answers to in-chapter questions**, links to other sites, and economic analysis of current events. There is lots of material there if you are finding study hard – make sure you make use of it.

Weekly Timetable (Microeconomics - Term 1)

Pre-reading Sloman Chapter 1

Lecture 1 Supply and Demand
Sloman Chapter 2

In addition to learning the material covered in the reading and lecture, by the end of this week you should:

- 1) Be confident in manipulating a standard supply and demand diagram, and be able to use it to answer a range of simple 'comparative static' questions.
- 2) Solve simple supply and demand problems algebraically and numerically.
- 3) Understand the notions of 'elasticity', 'slope', 'derivative'.
- 4) Be able to calculate several types of elasticity using discrete methods and power rule differentiation.
- 5) Understand the relationship between numerical statements of elasticity and how a supply and demand diagram looks

Lecture 2 Government Intervention in the Market
Sloman Chapter 3

In addition to learning the material covered in the reading and lecture, by the end of this week you should:

- 1) Understand how to use supply and demand analysis to assess the impacts of various types of policy intervention.

Lecture 3 Demand I
Sloman Chapter 4 (especially 4.3, exclude Box 4.7)

In addition to learning the material covered in the reading and lecture, by the end of this week you should:

- 1) Be able to interpret an indifference map and understand how an indifference map can be combined with a budget line to 'solve' the consumer's problem.
- 2) Understand the key role played by marginal considerations in solving the consumer's problem.
- 3) Understand the correspondence between indifference curve diagrams and the mathematics of maximising utility subject to a budget constraint.

Lecture 4 Demand II
Sloman Chapter 4 (especially 4.3, exclude Box 4.7)

In addition to learning the material covered in the reading and lecture, by the end of this week you should:

- 1) Have a better developed understanding of indifference curve analysis.
- 2) Be able to conduct 'comparative static' exercises (with respect to price and income changes) on indifference curve diagrams, and use such exercises to derive demand and Engel curves.
- 3) Understand income and substitution effects.
- 4) Understand the limitations of indifference curve analysis.

Lectures 5 - 7

Background to Supply
Sloman Chapter 5

In addition to learning the material covered in the reading and lecture, by the end of these weeks you should:

- 1) Be able to interpret an isoquant and understand how an isoquant map can be combined with an isocost line to 'solve' for the firm's optimal choice of technique.
- 2) Understand the key role played by marginal considerations in determining the optimal choice of technique.
- 3) Understand the correspondence between isoquant/isocost diagrams and the mathematics of profit maximization.
- 4) Understand the distinctions between total, marginal and average cost and the significance and use of each.
- 5) Be able to solve simple numerical profit maximisation, cost minimisation and revenue maximisation problems.
- 6) Understand the concepts normal profit and opportunity cost, and the significance of each.

Lecture 8 Perfect Competition & Monopoly Sloman Chapter 6

In addition to learning the material covered in the reading and lecture, by the end of this week you should:

- 1) Understand of the structure/conduct/performance approach to industrial organisation, its limitations, and the role of monopoly and perfect competition as 'benchmarks'.
- 2) Understand the characteristics of long and short-run equilibrium in perfectly competitive markets, understanding the equilibrium concepts and adjustment processes used.
- 3) Be able to solve simple numerical examples of perfectly competitive markets.
- 4) Be familiar with the characteristics of long and short-run equilibrium in monopolistic markets, understanding the equilibrium concepts and adjustment processes used.
- 5) Be able to solve simple numerical examples of monopolistic markets.
- 6) Understand the reasons for the ambiguous welfare comparison between competitive and monopolised markets.
- 7) Understand the implications of 'contestability theory'.

Lecture 9 Imperfect Competition Sloman Chapter 7

In addition to learning the material covered in the reading and lecture, by the end of this week you should:

- 1) Understand and be able to interpret monopolistic competition.

- 2) Recognise the strategic interdependence of firms in 'real' markets.
- 3) Understand the notion of Nash equilibrium and be able to 'solve' simple game matrices.
- 4) Understand the solution to the 'Prisoners Dilemma' game, the correspondence between that game and the situation facing firms operating (or attempting to operate) a cartel.

Lecture 10 Theory of Income Distribution
Sloman Chapter 9

In addition to learning the material covered in the reading, by the end of the week you should

- 1) Understand the determinants of wages and the rate of return on capital
- 2) Be able to use indifference curve analysis to analyse labour supply decisions and labour supply impacts of tax changes

Weekly Timetable (Macroeconomics - Term 2)

Pre-reading Sloman Chapters 13
Please read and understand this during Christmas
Break – go on, you know you'll enjoy it !

Lecture 1 Unemployment and Inflation
Sloman Chapters 14 (14.1, 14.2, 14.3)

- 1) Understand the theoretical and empirical association between inflation and unemployment.

Lecture 2 The Roots of Modern Macroeconomics
Sloman Chapter 15

In addition to learning the material covered in the reading and lecture, by the end of this week you should:

- 1) Understand the notion of circular flow of income
- 2) Understand the root disagreements that lead to the Monetarist-Keynesian debate in economics.

Lecture 3 Equilibrium in the Real Economy I
Sloman Chapter 16

In addition to learning the material covered in the reading and lecture, by the end of this week you should:

- 1) Understand and be able to manipulate a Keynesian-cross diagram and solve multiplier problems
- 2) Understand the strengths and weaknesses of the Keynesian-cross and multiplier frameworks.

Lecture 4 Equilibrium in the Real Economy II
Sloman Chapter 16

In addition to learning the material covered in the reading and lecture, by the end of this week you should:

- 1) Have a more developed understanding of how to manipulate a Keynesian-cross diagram and solve multiplier problems
- 2) Understand the notion of deflationary gap and the relationship with unemployment and AD

Lecture 5 Money and Interest Rates
Sloman Chapter 17

In addition to learning the material covered in the reading and lecture, by the end of this week you should:

- 1) Understand the functions of money in a modern economy.
- 2) Understand the determinants of the supply and demand for money.
- 3) Understand the concepts of fractional reserve banking and the money multiplier.

Lecture 6 IS-LM – The Relationship between Money and Good Markets
Sloman Chapter 18 (especially 18.3)

In addition to learning the material covered in the reading and lecture, by the end of this week you should:

- 1) Understand the meaning of the IS and LM curves, and how they are derived from models that we have already seen.
- 2) Understand the factors that determine the slopes of the IS and LM curves and their positions.
- 3) Be able to derive the IS and LM curves

Lecture 7 Fiscal Policy
Sloman Chapter 19

In addition to learning the material covered in the reading and lecture, by the end of this week you should:

- 1) Use IS-LM curves to assess the efficacy of fiscal policy.
- 2) Understand the limitations of fiscal policy as an instrument of macro-management.

Lecture 8 Monetary Policy and the 'Rules versus Discretion' Debate.
Sloman Chapter 19

In addition to learning the material covered in the reading and lecture, by the end of this week you should:

- 1) Use IS-LM curves to assess the efficacy of monetary policy.
- 2) Understand the limitations of monetary policy as an instrument of macro-management.
- 3) Understand the comparative merits of rules versus discretion in demand management.

Lecture 9 Aggregate Supply, Unemployment and Inflation
Sloman Chapter 20

In addition to learning the material covered in the reading and lecture, by the end of this week you should:

- 1) Understand the variety of positions on the relationship between unemployment and inflation.
- 2) Be able to analyse the implications of expectations and time horizon on AS.
- 3) The derivation and shape of the Phillips curve.

Lecture 10 Long-term Economic Growth
Sloman Chapter 21

In addition to learning the material covered in the reading and lecture, by the end of this week you should:

- 1) Understand causes of economic growth and the golden saving rule.

- 2) Be able to analyse supply side policies for economic growth.