

## ECON 104: First Day Handout Fall 2012

Course Title: **Economics and Government** Location: AQ 3150, Fri 10:30-12:20  
Professor: Krishna Pendakur  
WMC4655 Office Hour: Fri 14:00-15:00  
778-782-5501 or *pendakur@sfu.ca* or by appointment  
Prerequisites: NONE

### **MOST IMPORTANT: TONS OF STUFF IS ON MY WEBSITE, UNDER COURSE TOOLS.**

[www.sfu.ca/~pendakur/teaching/econ104/](http://www.sfu.ca/~pendakur/teaching/econ104/)

#### The Course:

A little bit of economics goes a long way. Politicians may tell you that they can lower your income taxes and increase health care spending. A little bit of economics tells you that if they do those things they must either raise other taxes, cut other expenditures or borrow a bunch of money. Pundits might tell you that markets can give you everything, but a little bit of economics tells you that markets might give you stuff you don't want as well, like an increasingly unequal society.

Economics underlie the decisions that must be made by government, and a little bit of economics can often help make these decisions more reasonably, or help choose politicians who can make these decisions more reasonably. It only takes a little economics to know that if too much carbon is going in to the atmosphere, then taxing it might help. It only takes a little economics to see that the invisible hand might do a good job at getting us the right amount of restaurant food, but will almost surely fail to get us the right amount of unemployment insurance or health care. A bit of economics also helps to figure where government can make things better when markets fail.

The course will focus on various topics, with readings, lectures and tutorials aimed at fleshing out various aspects of each topic. Usually, readings, lectures and tutorials will be complementary to each other, rather than substitutes for each other, so all will be required for successful completion of the course.

#### Topics will include:

1. How big is government? (hint for midterm—roughly half the economy)
2. What does government do? What should government do?
3. Deficits—is it bad to borrow? What's with the Americans and the Greeks?
4. Externalities—why being nice is hard, and why governments can help; how climate change can be slowed.
5. The Invisible Hand—why governments are terrible and private markets are great.
6. Social Insurance—why private markets are terrible and governments are great.
7. Finance—why did also those banks (nearly) collapse?
8. Inequality, Poverty and Homelessness: why so much need amidst plenty? What can we do about it?

#### Required Reading:

1. Harford, Tim, 2007 (2<sup>nd</sup> ed), The Undercover Economist, Oxford University Press, available in SFU Bookstore, \$21
2. Krugman, Paul, 2009, Conscience of a Liberal, Norton, available in SFU Bookstore, \$20
3. Wolf, Charles, 1986, Markets or Governments: Choosing Between Imperfect Alternatives, free on-line at RAND, <http://www.rand.org/content/dam/rand/pubs/notes/2006/N2505.pdf>, or, for money on MIT Press.
4. Other web-based readings

#### Grading and Course Requirements

Quizzes (5)	20%
Midterm Exam	30%
Final Exam	50%

Tutorials will focus on the tricky bits of materials covered in class.

Study questions for the midterm and final are available in advance on my website. Exam questions will be similar in spirit to—but not identical to—study questions. The Midterm is 2 hours, in-class, mostly short-answer and required. There are no retakes, and if the midterm is missed due to documented medical reasons, the weight shifts to the Final. The Final is 3 hours, mostly short-answer, and required. The final must be written to get a passing grade. There are no re-takes for the final *except* for medical reasons. In these cases, a note from a doctor is required, and the re-take will occur in early January.

Five quizzes will be given at random times during randomly chosen classes. Approximately half of lectures will have a quiz. These quizzes will review the material covered in the previous week's tutorial and lecture. Your grade will depend on your best 4 of 5 quizzes. Missed quizzes count as zeroes, regardless of the reason for absence.

Cheating is bad. See our policies on academic dishonesty and expulsion from the University,

<http://www.sfu.ca/policies/teaching/t10-02.html> Check our new grade: FD—Fail with Dishonour!

### ECON 104: Tentative Schedule

Lect#	Date	Topic/Activity	Reading PRIOR to lecture; Tutorials precede Friday lectures
1	no tutorial 7 Sep	20 <sup>th</sup> Century Govt	
2	tutorial 14 Sep	meet and greet; scale Taxes and Spending	Harford Ch1; weblinks: Federal and Provincial Budgets
3	tutorial 21 Sep	Deficit Accounting Efficiency and Prices	Harford Ch2,3;
4	tutorial 28 Sep	Pareto Efficiency Externalities and CO2	Harford Ch4; Wolf Ch1,2; web readings on Climate Change
5	tutorial 05 Oct	Externalities Social Insurance	Harford Ch5
6	tutorial 12 Oct	fairness and mandates State Power	Wolf Ch3
7	tutorial 19 Oct	review <b>MIDTERM</b>	2 hours, in-class, closed book
8	tutorial 26 Oct	inequality and poverty Inequality	Krugman Ch1-3; weblink: Fortin et al 2012
9	tutorial 02 Nov	Measurement Redistribution	Krugman Ch4-7
10	tutorial 09 Nov	deadweight loss Poverty	weblink: Norris and Pendakur 2012
11	tutorial 16 Nov	TBA Homelessness	Note different location TBA
11	tutorial 23 Nov	justice Political Economy	Krugman Ch8-10; Wolf Ch3-5
13	tutorial 30 Dec	Median Voters Health Insurance	Krugman Ch11-13

All readings are required

## ECON 104: Some Study Questions for Midterm

1. How much did the government of BC spend on health care during 2009-10? Is that a lot?
2. How are governments different from firms?
3. How big is the government sector now compared to 100 years ago?
4. What is the difference between a publicly financed good and a publicly produced good? Give an example of each.
5. What are 'government transfers'?
6. Does the federal government spend more on: foreign aid or defense?
7. Which kinds of government spending have the longest history in European societies?
8. What is "The Great Depression"? Why do we link it to the history of the growth of government in the developed world?
9. Why did government grow so much since 1960?
10. Does Canada put a lot of its resources into social expenditures? Should it?
11. Is health care private in the USA? Should it be?
12. Assume that I am the King and you are a serf. I have soft, soft pillows, yummy food and fine drinks; you get a brick to sleep on, dust to eat and mud to drink. Assume that you live on my land, but otherwise we don't interact.
  - a. Is this situation efficient? Compared to what feasible alternative?
  - b. Now assume that I am good at fighting invaders and you are good at farming. How could trade make us both better off?
  - c. Define the market-clearing price in this context.
13. Assume that I have a doughnut, and you have a doughnut, and there is one doughnut lying on the ground.
  - a. Is this efficient?
  - b. If I just take the doughnut from the ground and cram it down my throat without sharing it with you, is that efficient?
  - c. If we fight over it, and smoosh half of it in the fight, is that efficient?
  - d. If a third party offers to split the doughnut fairly between us in exchange for a quarter of the doughnut, is that efficient?
14. The First Fundamental Theorem tells you that competitive markets deliver efficient outcomes if what conditions are true?
  - a. If the world had only cheese and beer and you and me, do you think those conditions would hold? Argue both for and against.
15. Why does Harford use the phrase "the world of truth" to describe perfect markets?
16. Why do we have different levels of government? Should we abolish provinces?
17. Economists often say things like 'if the prices are right, people will respond correctly'. What exactly do they mean by this? What do they mean here by 'right' and 'correctly'?
18. How do market failures relate to global warming? What market failures are relevant to the problem of global climate change? How do these market failures relate to our world-level policy success or failure regarding global warming? What policy interventions are appropriate to 'correct' the market failures that you have identified?
19. What is a 'carbon tax'? What is 'cap and trade'? Environmentalists sometimes complain that 'cap and trade' encourages pollution? Why might they believe this? Is it reasonable?
20. Does action on global warning require us to surrender our sovereignty to some higher level of 'world government'?
21. The federal government keeps writing cheques to provinces for health care. Is financing really the problem? If it is, why don't provinces just raise their tax rates?
22. Can a state provide too much? Can it provide the right amount of goods, but still do a bad job?

## How To Succeed in This Course

1. In comparison with other Economics courses, this course is reading-intensive. Some of the readings are difficult and dense. Strategies for learning from the reading include:
  - a. Read slowly, and remind yourself as you go along what each paragraph meant.
  - b. Read each reading at least twice, and not twice in a row. Read it, get used to it for a day or two, and then read it again.
  - c. For each long reading, make one page of notes that pick out the most important points that the author makes.
  - d. For each reading, write down a few questions that puzzle you:
    - i. Things that seem wrong;
    - ii. Things that don't make sense;
    - iii. Things that conflict with ideas in the readings or other materials..
2. During lectures, listen to the lecture rather than transcribing them. Try to figure out what I am trying to communicate to you.
  - a. Often you can summarise what I say in a lecture in a page or less.
  - b. Close listening is more difficult than transcribing. You have to pay attention, and continuously ask yourself what I am trying to communicate to you.
  - c. After each lecture, write down a summary of its key points.
  - d. After each lecture, write down:
    - i. Things that seem wrong;
    - ii. Things that don't make sense;
    - iii. Things that conflict with other ideas presented.
3. Use the study questions to guide your learning.
  - a. Work with friends on the study questions.
  - b. Do NOT just divide them up and take them on individually; rather try to attack each of the difficult open-ended questions as a group of brains, not just one brain.
  - c. Typical open-ended questions do not have well-defined answers, so you often have to add information in order to answer the questions.
    - i. Thus, you must always be careful to know what information you are adding to a question to make it answerable.
  - d. Start them early, for example a week before the midterm.
4. The tutorials are used to cover material that is difficult or complex.
  - a. Thus, attendance at tutorial is useful for success in the course.
  - b. Try to push your TA to the limits of your understanding: that is, if something does not make sense to you, try to explain it to your TA so that you can get clarity.
5. Both the TA's and I have office hours which you may use.
  - a. If you don't understand things, come by and ask.