

# «ECONOMICS»

## BACHELOR

051 «Economics»

Faculty of Accounting and Finance

Department of International Economic Relations

(Assistant Prof., PhD V. Bondarchuk)

### **Topic 1. The ten principles of economics**

1. How people make decisions
2. How people interact
3. How the economy works

1-1a Principle 1: People Face Trade-offs

1-1b Principle 2: The Cost of Something Is What You Give Up to Get It

1-1c Principle 3: Rational People Think at the Margin

1-1d Principle 4: People Respond to Incentives

Case Study: The Incentive Effects of Gasoline Prices

1-2a Principle 5: Trade Can Make Everyone Better Off

1-2b Principle 6: Markets Are Usually a Good Way to Organize Economic Activity

1-2c Principle 7: Governments Can Sometimes Improve Market Outcomes

FYI: Adam Smith and the Invisible Hand

1-3a Principle 8: A Country's Standard of Living Depends on Its Ability to Produce Goods and Services

1-3b Principle 9: Prices Rise When the Government Prints Too Much Money

In The News: Why You Should Study Economics

1-3c Principle 10: Society Faces a Short-Run Trade-off between Inflation and Unemployment

### **Topic 2. Think like an economist**

1. Economists as scientists
2. Economists as policy advisers
3. Why economists disagree with each other

2-1 The Economist as Scientist

- 2-1a The Scientific Method: Observation, Theory, and More Observation
- 2-1b The Role of Assumptions
- 2-1c Economic Models
- 2-1d Our First Model: The Circular-Flow Diagram
- 2-1e Our Second Model: The Production Possibilities Frontier
- 2-1f Microeconomics and Macroeconomics
- 2-2 The Economist as Policy Adviser
- 2-2a Positive versus Normative Analysis
- 2-2b Economists in Washington
- 2-2c Why Economists' Advice Is Not Always Followed
- 2-3 Why Economists Disagree
- 2-3a Differences in Scientific Judgments
- 2-3b Differences in Values
- 2-3c Perception versus Reality
- In The News: Actual Economists and Virtual Realities

### **Topic 3. Interdependence and benefits of trade**

- 1. History of the modern economy
- 2. Comparative advantages
- 3. Apply comparative advantages

- 3-1 A Parable for the Modern Economy
- 3-1a Production Possibilities
- 3-1b Specialization and Trade
- 3-2 Comparative Advantage: The Driving Force of Specialization
- 3-2a Absolute Advantage
- 3-2b Opportunity Cost and Comparative Advantage
- 3-2c Comparative Advantage and Trade
- 3-2d The Price of the Trade
- FYI: The Legacy of Adam Smith and David Ricardo
- 3-3 Applications of Comparative Advantage
- 3-3a Should Tom Brady Mow His Own Lawn?
- In The News: Economics within a Marriage
- 3-3b Should the United States Trade with Other Countries?

### **Topic 4. Market forces of supply and demand**

- 1. Markets and competition
- 2. Demand
- 3. Supply
- 4. Demand-supply interaction

## 4-1 Markets and Competition

### 4-1a What Is a Market?

### 4-1b What Is Competition?

## 4-2 Demand

### 4-2a The Demand Curve: The Relationship between Price and Quantity Demanded

### 4-2b Market Demand versus Individual Demand

### 4-2c Shifts in the Demand Curve

### Case Study: Two Ways to Reduce the Quantity of Smoking Demanded

## 4-3 Supply

### 4-3a The Supply Curve: The Relationship between Price and Quantity Supplied

### 4-3b Market Supply versus Individual Supply

### 4-3c Shifts in the Supply Curve

## 4-4 Supply and Demand Together

### 4-4a Equilibrium

### 4-4b Three Steps to Analyzing Changes in Equilibrium

## 4-5 Conclusion: How Prices Allocate Resources

### In The News: Price Increases after Disasters

## **Topic 5. Elasticity and its application**

### 1. Elasticity of demand

### 2. Elasticity of supply

### 3. Demand, supply and elasticity

## 5-1 The Elasticity of Demand

### 5-1a The Price Elasticity of Demand and Its Determinants

### 5-1b Computing the Price Elasticity of Demand

### 5-1c The Midpoint Method: A Better Way to Calculate Percentage Changes and Elasticities

### 5-1d The Variety of Demand Curves

### 5-1e Total Revenue and the Price Elasticity of Demand

### FYI: A Few Elasticities from the Real World

### 5-1f Elasticity and Total Revenue along a Linear Demand Curve

### 5-1g Other Demand Elasticities

## 5-2 The Elasticity of Supply

### 5-2a The Price Elasticity of Supply and Its Determinants

### 5-2b Computing the Price Elasticity of Supply

### 5-2c The Variety of Supply Curves

## 5-3 Three Applications of Supply, Demand, and Elasticity

### 5-3a Can Good News for Farming Be Bad News for Farmers?

5-3b Why Did OPEC Fail to Keep the Price of Oil High?

5-3c Does Drug Interdiction Increase or Decrease Drug-Related Crime?

## **Topic 6. Demand, Supply and Government Policies**

1. Price control

2. Taxes

6-1 Controls on Prices

6-1a How Price Ceilings Affect Market Outcomes

Case Study: Lines at the Gas Pump

Case Study: Rent Control in the Short Run and the Long Run

6-1b How Price Floors Affect Market Outcomes

Case Study: The Minimum Wage

6-1c Evaluating Price Controls

In The News: Venezuela versus the Market

6-2 Taxes

6-2a How Taxes on Sellers Affect Market Outcomes

6-2b How Taxes on Buyers Affect Market Outcomes

Case Study: Can Congress Distribute the Burden of a Payroll Tax?

6-2c Elasticity and Tax Incidence

Case Study: Who Pays the Luxury Tax?

## **Topic 7. Buyers, Sellers and Market Performance**

1. Excess demand

2. Excess supply

3. Market efficiency

7-1 Consumer Surplus

7-1a Willingness to Pay

7-1b Using the Demand Curve to Measure Consumer Surplus

7-1c How a Lower Price Raises Consumer Surplus

7-1d What Does Consumer Surplus Measure?

7-2 Producer Surplus

7-2a Cost and the Willingness to Sell

7-2b Using the Supply Curve to Measure Producer Surplus

7-2c How a Higher Price Raises Producer Surplus

7-3 Market Efficiency

7-3a The Benevolent Social Planner

7-3b Evaluating the Market Equilibrium

In The News: The Invisible Hand Can Park Your Car

## Case Study: Should There Be a Market in Organs?

### **Topic 8. Tax effectiveness**

1. Losses from excessive taxation
2. Factors of losses from excessive taxation
3. Variety of losses on revenues from different tax systems

#### 8-1 The Deadweight Loss of Taxation

##### 8-1a How a Tax Affects Market Participants

##### 8-1b Deadweight Losses and the Gains from Trade

#### 8-2 The Determinants of the Deadweight Loss

##### Case Study: The Deadweight Loss Debate

#### 8-3 Deadweight Loss and Tax Revenue as Taxes Vary

##### Case Study: The Laffer Curve and Supply-Side Economics

##### In The News: The Tax Debate

### **Topic 9. International trade**

1. Factors of international trade
2. Trade losses and gains
3. Factors of trade restrictions

#### 9-1 The Determinants of Trade

##### 9-1a The Equilibrium without Trade

##### 9-1b The World Price and Comparative Advantage

#### 9-2 The Winners and Losers from Trade

##### 9-2a The Gains and Losses of an Exporting Country

##### 9-2b The Gains and Losses of an Importing Country

##### 9-2c The Effects of a Tariff

##### FYI: Import Quotas: Another Way to Restrict Trade

##### 9-2d The Lessons for Trade Policy

##### 9-2e Other Benefits of International Trade

##### In The News: Threats to Free Trade

#### 9-3 The Arguments for Restricting Trade

##### In The News: Should the Winners from Free Trade Compensate the Losers?

##### 9-3a The Jobs Argument

##### 9-3b The National-Security Argument

##### In The News: Second Thoughts about Free Trade

##### 9-3c The Infant-Industry Argument

##### 9-3d The Unfair-Competition Argument

##### 9-3e The Protection-as-a-Bargaining-Chip Argument

## Case Study: Trade Agreements and the World Trade Organization

### **Topic 10. Economic externalities**

1. Externalities and market efficiency
2. Public policies on externalities
3. Private decisions on externalities

#### 10-1 Externalities and Market Inefficiency

##### 10-1a Welfare Economics: A Recap

##### 10-1b Negative Externalities

##### 10-1c Positive Externalities

##### In The News: The Externalities of Country Living

##### Case Study: Technology Spillovers, Industrial Policy, and Patent Protection

#### 10-2 Public Policies toward Externalities

##### 10-2a Command-and-Control Policies: Regulation

##### 10-2b Market-Based Policy 1: Corrective Taxes and Subsidies

##### Case Study: Why Is Gasoline Taxed So Heavily?

##### 10-2c Market-Based Policy 2: Tradable Pollution Permits

##### 10-2d Objections to the Economic Analysis of Pollution

##### In The News: What Should We Do about Climate Change?

#### 10-3 Private Solutions to Externalities

##### 10-3a The Types of Private Solutions

##### 10-3b The Coase Theorem

##### 10-3c Why Private Solutions Do Not Always Work

### **Topic 11. Public goods and public resources**

1. Varieties of benefits
2. Public goods
3. Public resources

#### 11-1 The Different Kinds of Goods

##### 11-2 Public Goods

##### 11-2a The Free-Rider Problem

##### 11-2b Some Important Public Goods

##### Case Study: Are Lighthouses Public Goods?

##### 11-2c The Difficult Job of Cost–Benefit Analysis

##### Case Study: How Much Is a Life Worth?

#### 11-3 Common Resources

##### 11-3a The Tragedy of the Commons

##### In The News: The Case for Toll Roads

11-3b Some Important Common Resources

Case Study: Why the Cow Is Not Extinct

## **Topic 12. Design of the tax system**

1. Taxes and efficiency

2. Taxes and equality

12-1 A Financial Overview of the U.S. Government

12-1a The Federal Government

Case Study: The Fiscal Challenge Ahead

12-1b State and Local Governments

12-2 Taxes and Efficiency

12-2a Deadweight Losses

Case Study: Should Income or Consumption Be Taxed?

12-2b Administrative Burden

12-2c Marginal Tax Rates versus Average Tax Rates

12-2d Lump-Sum Taxes

12-3 Taxes and Equity

12-3a The Benefits Principle

12-3b The Ability-to-Pay Principle

Case Study: How the Tax Burden Is Distributed

12-3c Tax Incidence and Tax Equity

In The News: Tax Expenditures

Case Study: Who Pays the Corporate Income Tax?

## **Topic 13. Production costs**

1. The essence of costs

2. Production and costs

3. Types of costs

4. Production costs in the short and long term

13-1 What Are Costs?

13-1a Total Revenue, Total Cost, and Profit

13-1b Costs as Opportunity Costs

13-1c The Cost of Capital as an Opportunity Cost

13-1d Economic Profit versus Accounting Profit

13-2 Production and Costs

13-2a The Production Function

13-2b From the Production Function to the Total-Cost Curve

13-3 The Various Measures of Cost

- 13-3a Fixed and Variable Costs
- 13-3b Average and Marginal Cost
- 13-3c Cost Curves and Their Shapes
- 13-3d Typical Cost Curves
- 13-4 Costs in the Short Run and in the Long Run
- 13-4a The Relationship between Short-Run and Long-Run Average Total Cost
- 13-4b Economies and Diseconomies of Scale
- FYI: Lessons from a Pin Factory

#### **Topic 14. Firms in the competitive market**

1. What is a competitive market
2. Profit maximization
3. The supply curve in a competitive market

- 14-1 What Is a Competitive Market?
  - 14-1a The Meaning of Competition
  - 14-1b The Revenue of a Competitive Firm
- 14-2 Profit Maximization and the Competitive Firm's Supply Curve
  - 14-2a A Simple Example of Profit Maximization
  - 14-2b The Marginal-Cost Curve and the Firm's Supply Decision
  - 14-2c The Firm's Short-Run Decision to Shut Down
  - 14-2d Spilt Milk and Other Sunk Costs
- Case Study: Near-Empty Restaurants and Off-Season Miniature Golf
- 14-2e The Firm's Long-Run Decision to Exit or Enter a Market
- 14-2f Measuring Profit in Our Graph for the Competitive Firm
- 14-3 The Supply Curve in a Competitive Market
  - 14-3a The Short Run: Market Supply with a Fixed Number of Firms
  - 14-3b The Long Run: Market Supply with Entry and Exit
  - 14-3c Why Do Competitive Firms Stay in Business If They Make Zero Profit?
  - 14-3d A Shift in Demand in the Short Run and Long Run
  - 14-3e Why the Long-Run Supply Curve Might Slope Upward

#### **Topic 15. Monopoly**

1. Why monopolies arise
2. As monopolies determine output and price
3. The cost of monopoly
4. Price discrimination
5. Public policy on monopolies

- 15-1 Why Monopolies Arise



- 15-1a Monopoly Resources
- 15-1b Government-Created Monopolies
- 15-1c Natural Monopolies
- 15-2 How Monopolies Make Production and Pricing Decisions
  - 15-2a Monopoly versus Competition
  - 15-2b A Monopoly's Revenue
  - 15-2c Profit Maximization
  - 15-2d A Monopoly's Profit
- FYI: Why a Monopoly Does Not Have a Supply Curve
- Case Study: Monopoly Drugs versus Generic Drugs
- 15-3 The Welfare Cost of Monopolies
  - 15-3a The Deadweight Loss
  - 15-3b The Monopoly's Profit: A Social Cost?
- 15-4 Price Discrimination
  - 15-4a A Parable about Pricing
  - 15-4b The Moral of the Story
  - 15-4c The Analytics of Price Discrimination
  - 15-4d Examples of Price Discrimination
- In The News: Price Discrimination in Higher Education
- 15-5 Public Policy toward Monopolies
  - 15-5a Increasing Competition with Antitrust Laws
  - 15-5b Regulation
  - 15-5c Public Ownership
  - 15-5d Doing Nothing

## **Topic 16. Monopolistic competition**

- 1. Between monopoly and perfect competition
- 2. Competition with differentiated products
- 3. Advertising

  

- 16-1 Between Monopoly and Perfect Competition
- 16-2 Competition with Differentiated Products
  - 16-2a The Monopolistically Competitive Firm in the Short Run
  - 16-2b The Long-Run Equilibrium
  - 16-2c Monopolistic versus Perfect Competition
  - 16-2d Monopolistic Competition and the Welfare of Society
- In The News: Insufficient Variety as a Market Failure
- 16-3 Advertising
  - 16-3a The Debate over Advertising
- Case Study: Advertising and the Price of Eyeglasses

16-3b Advertising as a Signal of Quality

16-3c Brand Names

### **Topic 17. Oligopoly**

1. Markets with multiple sellers

2. The economy of cooperation

3. Public policy on oligopolies

17-1 Markets with Only a Few Sellers

17-1a A Duopoly Example

17-1b Competition, Monopolies, and Cartels

In The News: Public Price Fixing

17-1c The Equilibrium for an Oligopoly

17-1d How the Size of an Oligopoly Affects the Market Outcome

17-2 The Economics of Cooperation

17-2a The Prisoners' Dilemma

17-2b Oligopolies as a Prisoners' Dilemma

Case Study: OPEC and the World Oil Market

17-2c Other Examples of the Prisoners' Dilemma

17-2d The Prisoners' Dilemma and the Welfare of Society

17-2e Why People Sometimes Cooperate

Case Study: The Prisoners' Dilemma Tournament

17-3 Public Policy toward Oligopolies

17-3a Restraint of Trade and the Antitrust Laws

Case Study: An Illegal Phone Call

17-3b Controversies over Antitrust Policy

Case Study: The Microsoft Case

17-4 Conclusion

In The News: Should the N.C.A.A. Be Taken to Court?

### **Topic 18. Market of factors of production**

1. Demand for labor

2. Labor supply

3. Balance in the labor market

4. Other factors of production: land and capital

18-1 The Demand for Labor

18-1a The Competitive Profit-Maximizing Firm

18-1b The Production Function and the Marginal Product of Labor

18-1c The Value of the Marginal Product and the Demand for Labor

18-1d What Causes the Labor-Demand Curve to Shift?

FYI: Input Demand and Output Supply: Two Sides of the Same Coin

18-2 The Supply of Labor

18-2a The Trade-off between Work and Leisure

18-2b What Causes the Labor-Supply Curve to Shift?

18-3 Equilibrium in the Labor Market

18-3a Shifts in Labor Supply

18-3b Shifts in Labor Demand

In The News: The Economics of Immigration

Case Study: Productivity and Wages

FYI: Monopsony

18-4 The Other Factors of Production: Land and Capital

18-4a Equilibrium in the Markets for Land and Capital

FYI: What Is Capital Income?

18-4b Linkages among the Factors of Production

Case Study: The Economics of the Black Death

## **Topic 19. Income and Inequality**

1. Factors of equilibrium wages

2. The economy of inequality

19-1 Some Determinants of Equilibrium Wages

19-1a Compensating Differentials

19-1b Human Capital

Case Study: The Increasing Value of Skills

In The News: Higher Education as an Investment

19-1c Ability, Effort, and Chance

Case Study: The Benefits of Beauty

19-1d An Alternative View of Education: Signaling

19-1e The Superstar Phenomenon

19-1f Above-Equilibrium Wages: Minimum-Wage Laws, Unions, and Efficiency

Wages

19-2 The Economics of Discrimination

19-2a Measuring Labor-Market Discrimination

Case Study: Is Emily More Employable than Lakisha?

19-2b Discrimination by Employers

Case Study: Segregated Streetcars and the Profit Motive

19-2c Discrimination by Customers and Governments

Case Study: Discrimination in Sports

In The News: Gender Differences

## **Topic 20. Income inequality and poverty**

1. Determination of inequality
2. The political philosophy of income sharing
3. Poverty reduction policies

### 20-1 The Measurement of Inequality

#### 20-1a U.S. Income Inequality

#### 20-1b Inequality around the World

#### 20-1c The Poverty Rate

#### 20-1d Problems in Measuring Inequality

#### Case Study: Alternative Measures of Inequality

#### 20-1e Economic Mobility

### 20-2 The Political Philosophy of Redistributing Income

#### 20-2a Utilitarianism

#### 20-2b Liberalism

#### 20-2c Libertarianism

### 20-3 Policies to Reduce Poverty

#### 20-3a Minimum-Wage Laws

#### 20-3b Welfare

#### 20-3c Negative Income Tax

#### 20-3d In-Kind Transfers

#### 20-3e Antipoverty Programs and Work Incentives

#### In The News: International Differences in Income Redistribution

## **Topic 21. Consumer choice theory**

1. Budget constraint
2. Consumer wishes
3. Optimization of consumer choice

### 21-1 The Budget Constraint: What the Consumer Can Afford

### 21-2 Preferences: What the Consumer Wants

#### 21-2a Representing Preferences with Indifference Curves

#### 21-2b Four Properties of Indifference Curves

#### 21-2c Two Extreme Examples of Indifference Curves

### 21-3 Optimization: What the Consumer Chooses

#### 21-3a The Consumer's Optimal Choices

#### FYI: Utility: An Alternative Way to Describe Preferences and Optimization

#### 21-3b How Changes in Income Affect the Consumer's Choices

#### 21-3c How Changes in Prices Affect the Consumer's Choices

21-3d Income and Substitution Effects  
21-3e Deriving the Demand Curve  
21-4 Three Applications  
21-4a Do All Demand Curves Slope Downward?  
Case Study: The Search for Giffen Goods  
21-4b How Do Wages Affect Labor Supply?  
Case Study: Income Effects on Labor Supply: Historical Trends, Lottery Winners, and the Carnegie Conjecture  
21-4c How Do Interest Rates Affect Household Saving?

## **Topic 22. Microeconomic constraints**

1. Asymmetry of information
2. Political economy
3. Behavioral Economics

22-1 Asymmetric Information  
22-1a Hidden Actions: Principals, Agents, and Moral Hazard  
FYI: Corporate Management  
22-1b Hidden Characteristics: Adverse Selection and the Lemons Problem  
22-1c Signaling to Convey Private Information  
Case Study: Gifts as Signals  
22-1d Screening to Uncover Private Information  
22-1e Asymmetric Information and Public Policy  
22-2 Political Economy  
22-2a The Condorcet Voting Paradox  
22-2b Arrow's Impossibility Theorem  
22-2c The Median Voter Is King  
22-2d Politicians Are People Too  
22-3 Behavioral Economics  
22-3a People Aren't Always Rational  
Case Study: Left-Digit Bias  
22-3b People Care about Fairness  
22-3c People Are Inconsistent over Time  
In The News: Can Brain Science Improve Economics?

## **Topic 23. National income**

1. Revenues and expenditures in the economic system
2. Components of GDP
3. Real and nominal GDP
4. Is GDP a good measure of economic well-being

- 23-1 The Economy's Income and Expenditure
- 23-2 The Measurement of GDP
  - 23-2a "GDP Is the Market Value . . ."
  - 23-2b ". . . of All . . ."
  - 23-2c ". . . Final . . ."
  - 23-2d ". . . Goods and Services . . ."
  - 23-2e ". . . Produced . . ."
  - 23-2f ". . . Within a Country . . ."
  - 23-2g ". . . In a Given Period of Time."
- 23-3 The Components of GDP
- FYI: Other Measures of Income
  - 23-3a Consumption
  - 23-3b Investment
  - 23-3c Government Purchases
  - 23-3d Net Exports
- Case Study: The Components of U.S. GDP
- 23-4 Real versus Nominal GDP
- In The News: The BEA Changes the Definitions of Investment and GDP
- 23-4a A Numerical Example
- 23-4b The GDP Deflator
- Case Study: Real GDP over Recent History
- 23-5 Is GDP a Good Measure of Economic Well-Being?
- Case Study: International Differences in GDP and the Quality of Life
- In The News: The Underground Economy
- In The News: Measuring Macroeconomic Well-Being

## **Topic 24. Cost of living**

1. Consumer Price Index
2. Adjusting economic indicators for the inflation index

- 24-1 The Consumer Price Index
  - 24-1a How the CPI Is Calculated
  - FYI: What Is in the CPI's Basket?
  - 24-1b Problems in Measuring the Cost of Living
  - In The News: Monitoring Inflation in the Internet Age
  - 24-1c The GDP Deflator versus the Consumer Price Index
- 24-2 Correcting Economic Variables for the Effects of Inflation
  - 24-2a Dollar Figures from Different Times
  - 24-2b Indexation

FYI: Mr. Index Goes to Hollywood

24-2c Real and Nominal Interest Rates

Case Study: Interest Rates in the U.S. Economy

## **Topic 25. Production and growth**

1. Economic growth in the world
2. The values and factors of productivity
3. Economic growth and public policy

25-1 Economic Growth around the World

25-2 Productivity: Its Role and Determinants

FYI: Are You Richer Than the Richest American?

25-2a Why Productivity Is So Important

25-2b How Productivity Is Determined

FYI: A Picture Is Worth a Thousand Statistics

FYI: The Production Function

Case Study: Are Natural Resources a Limit to Growth?

25-3 Economic Growth and Public Policy

25-3a Saving and Investment

25-3b Diminishing Returns and the Catch-Up Effect

25-3c Investment from Abroad

25-3d Education

25-3e Health and Nutrition

25-3f Property Rights and Political Stability

In The News: Does Food Aid Help or Hurt?

25-3g Free Trade

25-3h Research and Development

25-3i Population Growth

In The News: One Economist's Answer

## **Topic 26. Savings, Investments and the Financial System**

1. Savings and investments in the national income account
2. Credit market

26-1 Financial Institutions in the U.S. Economy

26-1a Financial Markets

26-1b Financial Intermediaries

FYI: Key Numbers for Stock Watchers

26-1c Summing Up

In The News: Should Students Sell Equity in Themselves?

26-2 Saving and Investment in the National Income Accounts

26-2a Some Important Identities

26-2b The Meaning of Saving and Investment

26-3 The Market for Loanable Funds

26-3a Supply and Demand for Loanable Funds

26-3b Policy 1: Saving Incentives

26-3c Policy 2: Investment Incentives

26-3d Policy 3: Government Budget Deficits and Surpluses

Case Study: The History of U.S. Government Debt

FYI: Financial Crises

## **Topic 27. Basic Financial Instruments**

1. Present value

2. Risk management

3. Valuation of assets

27-1 Present Value: Measuring the Time Value of Money

FYI: The Magic of Compounding and the Rule of 70

27-2 Managing Risk

27-2a Risk Aversion

27-2b The Markets for Insurance

27-2c Diversification of Firm-Specific Risk

27-2d The Trade-off between Risk and Return

27-3 Asset Valuation

27-3a Fundamental Analysis

27-3b The Efficient Markets Hypothesis

Case Study: Random Walks and Index Funds

27-3c Market Irrationality

In The News: Is the Efficient Markets Hypothesis Kaput?

## **Topic 28. Unemployment**

1. The essence of unemployment

2. Job search

3. The law of minimum wage

4. Trade unions

5. The theory of effective wages

28-1 Identifying Unemployment

28-1a How Is Unemployment Measured?

Case Study: Labor-Force Participation of Men and Women in the U.S. Economy



28-1b Does the Unemployment Rate Measure What We Want It To?

28-1c How Long Are the Unemployed without Work?

28-1d Why Are There Always Some People Unemployed?

FYI: The Jobs Number

28-2 Job Search

28-2a Why Some Frictional Unemployment Is Inevitable

28-2b Public Policy and Job Search

28-2c Unemployment Insurance

In The News: Why Has Employment Declined?

28-3 Minimum-Wage Laws

28-4 Unions and Collective Bargaining

FYI: Who Earns the Minimum Wage?

28-4a The Economics of Unions

28-4b Are Unions Good or Bad for the Economy?

28-5 The Theory of Efficiency Wages

28-5a Worker Health

28-5b Worker Turnover

28-5c Worker Quality

## **Topic 29. Monetary system**

1. The essence of money

2. Banks and money supply

3. Monetary policy instruments

29-1 The Meaning of Money

29-1a The Functions of Money

29-1b The Kinds of Money

In The News: Why Gold?

29-1c Money in the U.S. Economy

FYI: Why Credit Cards Aren't Money

Case Study: Where Is All the Currency?

29-2 The Federal Reserve System

29-2a The Fed's Organization

29-2b The Federal Open Market Committee

29-3 Banks and the Money Supply

29-3a The Simple Case of 100-Percent-Reserve Banking

29-3b Money Creation with Fractional-Reserve Banking

29-3c The Money Multiplier

29-3d Bank Capital, Leverage, and the Financial Crisis of 2008–2009

29-4 The Fed's Tools of Monetary Control

29-4a How the Fed Influences the Quantity of Reserves  
29-4b How the Fed Influences the Reserve Ratio  
29-4c Problems in Controlling the Money Supply  
Case Study: Bank Runs and the Money Supply  
In The News: Bernanke on the Fed's Toolbox  
29-4d The Federal Funds Rate

### **Topic 30. Money supply and inflation**

1. The classical theory of inflation
2. The price of inflation

30-1 The Classical Theory of Inflation  
30-1a The Level of Prices and the Value of Money  
30-1b Money Supply, Money Demand, and Monetary Equilibrium  
30-1c The Effects of a Monetary Injection  
30-1d A Brief Look at the Adjustment Process  
30-1e The Classical Dichotomy and Monetary Neutrality  
30-1f Velocity and the Quantity Equation  
Case Study: Money and Prices during Four Hyperinflations  
30-1g The Inflation Tax  
30-1h The Fisher Effect  
FYI: Hyperinflation in Zimbabwe  
30-2 The Costs of Inflation  
30-2a A Fall in Purchasing Power? The Inflation Fallacy  
30-2b Shoeleather Costs  
30-2c Menu Costs  
30-2d Relative-Price Variability and the Misallocation of Resources  
30-2e Inflation-Induced Tax Distortions  
30-2f Confusion and Inconvenience  
30-2g A Special Cost of Unexpected Inflation: Arbitrary Redistributions of Wealth  
30-2h Inflation Is Bad, But Deflation May Be Worse  
Case Study: The Wizard of Oz and the Free-Silver Debate

### **Topic 31. Fundamentals of Macroeconomics**

1. International movement of goods and capital
2. International transaction price: real and nominal exchange rates
3. Purchasing power parity

31-1 The International Flows of Goods and Capital  
31-1a The Flow of Goods: Exports, Imports, and Net Exports

Case Study: The Increasing Openness of the U.S. Economy  
In The News: The Changing Nature of U.S. Exports  
31-1b The Flow of Financial Resources: Net Capital Outflow  
31-1c The Equality of Net Exports and Net Capital Outflow  
31-1d Saving, Investment, and Their Relationship to the International Flows  
31-1e Summing Up  
Case Study: Is the U.S. Trade Deficit a National Problem?  
31-2 The Prices for International Transactions: Real and Nominal Exchange Rates  
31-2a Nominal Exchange Rates  
FYI: The Euro  
31-2b Real Exchange Rates  
31-3 A First Theory of Exchange-Rate Determination: Purchasing-Power Parity  
31-3a The Basic Logic of Purchasing-Power Parity  
31-3b Implications of Purchasing-Power Parity  
Case Study: The Nominal Exchange Rate during a Hyperinflation  
31-3c Limitations of Purchasing-Power Parity  
Case Study: The Hamburger Standard

### **Topic 32. Macroeconomics of an Open Economic System**

1. Money supply and demand in the international money market
2. Equilibrium in an open economy
3. What affects the economy

32-1 Supply and Demand for Loanable Funds and for Foreign-Currency Exchange  
32-1a The Market for Loanable Funds  
32-1b The Market for Foreign-Currency Exchange  
FYI: Purchasing-Power Parity as a Special Case  
32-2 Equilibrium in the Open Economy  
32-2a Net Capital Outflow: The Link between the Two Markets  
32-2b Simultaneous Equilibrium in Two Markets  
FYI: Disentangling Supply and Demand  
32-3 How Policies and Events Affect an Open Economy  
32-3a Government Budget Deficits  
32-3b Trade Policy  
32-3c Political Instability and Capital Flight  
Case Study: Capital Flows from China  
In The News: Is a Strong Currency Always in a Nation's Interest?

### **Topic 33. Aggregate Demand and Aggregate Supply**

1. Economic fluctuations

2. Economic fluctuations in the short term
3. The aggregate demand curve
4. Curve of aggregate supply
5. Causes of economic fluctuations

### 33-1 Three Key Facts about Economic Fluctuations

33-1a Fact 1: Economic Fluctuations Are Irregular and Unpredictable

33-1b Fact 2: Most Macroeconomic Quantities Fluctuate Together

33-1c Fact 3: As Output Falls, Unemployment Rises

### 33-2 Explaining Short-Run Economic Fluctuations

33-2a The Assumptions of Classical Economics

33-2b The Reality of Short-Run Fluctuations

In The News: The Social Influences of Economic Downturns

33-2c The Model of Aggregate Demand and Aggregate Supply

### 33-3 The Aggregate-Demand Curve

33-3a Why the Aggregate-Demand Curve Slopes Downward

33-3b Why the Aggregate-Demand Curve Might Shift

### 33-4 The Aggregate-Supply Curve

33-4a Why the Aggregate-Supply Curve Is Vertical in the Long Run

33-4b Why the Long-Run Aggregate-Supply Curve Might Shift

33-4c Using Aggregate Demand and Aggregate Supply to Depict Long-Run Growth and Inflation

33-4d Why the Aggregate-Supply Curve Slopes Upward in the Short Run

33-4e Why the Short-Run Aggregate-Supply Curve Might Shift

## **Topic 34. Impact of monetary and fiscal policy on aggregate demand**

1. Impact of monetary policy on aggregate demand
2. The impact of fiscal policy on aggregate demand
3. Using policies to stabilize the economy

### 34-1 How Monetary Policy Influences Aggregate Demand

34-1a The Theory of Liquidity Preference

34-1b The Downward Slope of the Aggregate-Demand Curve

FYI: Interest Rates in the Long Run and the Short Run

34-1c Changes in the Money Supply

34-1d The Role of Interest-Rate Targets in Fed Policy

FYI: The Zero Lower Bound

Case Study: Why the Fed Watches the Stock Market (and Vice Versa)

### 34-2 How Fiscal Policy Influences Aggregate Demand

34-2a Changes in Government Purchases

34-2b The Multiplier Effect  
34-2c A Formula for the Spending Multiplier  
34-2d Other Applications of the Multiplier Effect  
34-2e The Crowding-Out Effect  
34-2f Changes in Taxes  
FYI: How Fiscal Policy Might Affect Aggregate Supply  
34-3 Using Policy to Stabilize the Economy  
34-3a The Case for Active Stabilization Policy  
Case Study: Keynesians in the White House  
In The News: How Large Is the Fiscal Policy Multiplier?  
34-3b The Case against Active Stabilization Policy  
34-3c Automatic Stabilizers

### **Topic 35. Inflation and unemployment in the short term**

1. Phillips curve
2. The role of expectations
3. The role of the proposal
4. The price of inflation

35-1 The Phillips Curve  
35-1a Origins of the Phillips Curve  
35-1b Aggregate Demand, Aggregate Supply, and the Phillips Curve  
35-2 Shifts in the Phillips Curve: The Role of Expectations  
35-2a The Long-Run Phillips Curve  
35-2b The Meaning of “Natural”  
35-2c Reconciling Theory and Evidence  
35-2d The Short-Run Phillips Curve  
35-2e The Natural Experiment for the Natural-Rate Hypothesis  
35-3 Shifts in the Phillips Curve: The Role of Supply Shocks  
35-4 The Cost of Reducing Inflation  
35-4a The Sacrifice Ratio  
35-4b Rational Expectations and the Possibility of Costless Disinflation  
35-4c The Volcker Disinflation  
35-4d The Greenspan Era  
35-4e A Financial Crisis Takes Us for a Ride along the Phillips Curve

### **Topic 36. Macroeconomic Policy Issues**

1. Should monetary and fiscal policymakers try to stabilize the economy
2. Should the state fight the recession
3. Should monetary policy be guided by rules or decisions

36-1 Should Monetary and Fiscal Policymakers Try to Stabilize the Economy?

36-1a Pro: Policymakers Should Try to Stabilize the Economy

36-1b Con: Policymakers Should Not Try to Stabilize the Economy

In The News: How Long Will the Fed Keep Interest Rates at Zero?

36-2 Should the Government Fight Recessions with Spending Hikes Rather Than Tax Cuts?

36-2a Pro: The Government Should Fight Recessions with Spending Hikes

36-2b Con: The Government Should Fight Recessions with Tax Cuts

36-3 Should Monetary Policy Be Made by Rule Rather Than by Discretion?

36-3a Pro: Monetary Policy Should Be Made by Rule

36-3b Con: Monetary Policy Should Not Be Made by Rule

FYI: Inflation Targeting

36-4 Should the Central Bank Aim for Zero Inflation?

36-4a Pro: The Central Bank Should Aim for Zero Inflation

36-4b Con: The Central Bank Should Not Aim for Zero Inflation

In The News: What Is the Optimal Inflation Rate?

36-5 Should the Government Balance Its Budget?

36-5a Pro: The Government Should Balance Its Budget

36-5b Con: The Government Should Not Balance Its Budget

In The News: What Would an American Fiscal Crisis Look Like?

36-6 Should the Tax Laws Be Reformed to Encourage Saving?

36-6a Pro: The Tax Laws Should Be Reformed to Encourage Saving

36-6b Con: The Tax Laws Should Not Be Reformed to Encourage Saving