

Syllabus

Introduction to Economics

Lecturer: Yuri Avtonomov (yavtonomov@hse.ru, <https://www.hse.ru/org/persons/140148>)
Department of Theoretical Economics

1. Course Description

a) Pre-requisites:

Students are expected to be competent in basic algebra and calculus and be able to plot and manipulate simple functions.

b) Abstract:

Introduction to Economics is a two-semester course for second-year undergraduate students. The goal of this course is to introduce students to the fundamentals of economic analysis and reasoning, which will help them to understand and approach more specialized/applied courses, projects or tasks related to economics.

To put it briefly, economics is the study of how society uses its scarce resources. Therefore, its aim is to provide insight into the processes governing the production, distribution and consumption of goods and services in a market economy.

One of the key features of economics as opposed to other social sciences is that the principles of economic analysis are (i) simple and (ii) relatively well defined, so they can be used to analyze human behaviour in many different areas of life. Economics is, therefore, much more of a “way of thinking”. And although the course provides some information that is descriptive (e.g., how the banking system works or how one calculates the value of economic output of a country) its main focus is on introducing concepts and models which are used as tools of economic analysis. Concepts such as opportunity cost and approaches such as marginal analysis can be applied widely and prove useful in understanding various aspects of society and people’s lives.

2. Learning Objectives

- To introduce students to the main analytical tools which are used in economic analysis
- To introduce students to the main conclusions derived from economic analysis, and develop their understanding of their organizational and policy implications
- To enable students to understand and participate in debates on economic matters, choosing proper frameworks of economic analysis for specific cases.

3. Learning Outcomes

At the end of the course, having completed the Essential reading and activities, students should be able to:

- define the main concepts and describe the models and methods used in economic analysis
- formulate real world issues in the language of economic concepts and models
- apply and use economic concepts and models to analyze these issues
- assess the potential and limitations of the models and methods used in economic analysis.

4. Course Plan

1. Economics, the economy and tools of economic analysis.

Scarcity. Rationality. The production possibility frontier and opportunity cost. Absolute and comparative advantage. Markets. Microeconomics and macroeconomics. Positive and normative economics. Models and theory. (BVFD Chs.1-2)

2. Consumer choice.

Preferences, indifference curves and utility function. Utility maximisation and choice. Consumer choice and demand. Comparative statics: income and price changes. Substitution and income effects. The individual demand and elasticity. Complements and substitutes. Cash transfers versus transfers in kind. Inverse demand curve and consumer's surplus. (BVFD Ch. 5)

3. The firm.

Firm's objective. Production function, returns to scale, the law of diminishing marginal returns. Cost minimization: isoquants and isocost lines. Costs in the

short run and in the long run. Firm's decision in the short run. Firm's decision in the long run. (BVFD Chs.6-7, 8.1-8.2)

4. Perfect competition

Market supply in the short-run. Market demand. Equilibrium in the short run. Entry and exit, short-run and long-run equilibrium. Comparative statics. Equilibrium and Efficiency. (BVFD Ch. 8.3-8.4)

5. Monopoly

Pure monopoly. Natural monopoly. Social cost of monopoly. Regulation of natural monopoly. (BVFD Ch. 8.5-8.10)

6. Market structure and imperfect competition

Monopolistic competition. Basic concepts of game theory. Oligopoly: Cournot duopoly, Bertrand model, Stackelberg model. Strategic entry deterrence. (BVFD Ch. 9)

7. Inputs to production: the labour market

Utility maximisation and the supply of labour. Profit maximisation and the demand for labour. Economic rent. Monopsony. Factors affecting labour market equilibrium (unions, minimum wages and others). (BVFD Ch. 10)

8. General equilibrium and welfare economics

Exchange economy and Edgeworth box. General equilibrium. Efficiency in exchange economy. Equilibrium and efficiency: welfare theorems. Equity and efficiency. Market failures: the problem of externalities and possible solutions. (BVFD Ch. 13)

9. Missing markets and the role of government

Market failures: the problem of externalities and possible solutions. Coase theorem. Government interventions, public goods, taxation; Income distribution, the Gini coefficient and Lorenz curves. (BVFD Chs. 11, 14)

10. Introduction to Macroeconomics

The problem of aggregation, the circular flow of income, leakages and injections, national income accounting, real and nominal gross domestic product (GDP). (BVFD Ch.15)

11. Output and aggregate demand: Keynesian cross model

Actual and potential output, consumption, investment, income determination, equilibrium, the multiplier, the paradox of thrift, consumption and taxation, the government budget, automatic stabilizers (the financing of government), the multiplier and taxation, the role of fiscal policy, imports and exports, the multiplier in an open economy. (BVFD Chs.16-17)

12. Money and banking

The role of money, real balances, the liquidity preference approach and the demand for money (liquid assets), commercial banks and the supply of money (banks and the various multipliers), central banks and monetary control, equilibrium in the money market. (BVFD Chs.18-19)

13. Monetary and fiscal policy in the short-run

Goods market equilibrium and IS curve, equilibrium in the money market and LM curve, the IS-LM model, monetary and fiscal policies in a closed economy. (BVFD Ch.20)

14. Aggregate demand and aggregate supply

Keynesian and classical assumptions regarding wages and prices, aggregate supply in the long run and the short run, the effects of exogenous demand and supply shocks. (BVFD Ch.21)

15. Inflation

Inflation targeting, the Taylor rule, the quantity theory of money, the Phillips curve in the long-run and the short-run, stagflation and the role of expectations, costs of inflation. (BVFD Ch. 22)

16. Unemployment

Types of unemployment, voluntary and involuntary unemployment, causes of unemployment, private and social costs, hysteresis. (BVFD Ch.23)

17. Open economy macroeconomics

The foreign currency market, exchange rate regimes, the balance of payments, capital mobility, the rate of interest and the price of foreign currency. The effects of fiscal and monetary policies under fixed and floating exchange rates with and without capital mobility. (BVFD Chs.24-25)

18. Supply-side economics and economic growth

Growth in potential output, the steady state, technological progress, capital accumulation, convergence, endogenous growth, policies to promote growth. (BVFD Ch.26)

5. Reading List

a) Required:

- Begg, D., G. Vernasca, S. Fischer and R. Dornbusch Economics. (London: McGraw Hill, 2014) 11th edition [BVFD].
- Introduction to economics EC1002, Subject Guide. O. Birchall with D. Verry and M. Bray. University of London, 2018. Available online via <https://my.london.ac.uk>

b) Optional

- Lipsey, R.G. and K.A. Chrystal Economics. (Oxford University Press).

somewhat more advanced books:

- Varian H.R., Intermediate Microeconomics. A modern approach. 11th edition. W.W. Norton and Company, 2014. \
- in Russian translation: X.П.Вэриан. Микроэкономика. Промежуточный уровень. Современный подход. Пер. с англ. 4-ого изд. - М.: "ЮНИТИ", 1997.)
- Blanchard O., Giavazzi F., Amighini A. Macroeconomics: A European Perspective. Financial Times Press, 2010.
- Mankiw, N.G., Macroeconomics, 7ed. Worth Publishers. 2010. <http://bcs.worthpublishers.com/mankiw7/>

Some Internet resources for the macro part of the course:

- Russian Federation statistic agency: <http://www.gks.ru>

- Central Bank of Russian Federation statistic agency: <http://cbr.ru>
- Key macroeconomic indicators for different economies:
 - <http://data.worldbank.org>
 - www.imf.org/external/datamapper
 - <http://www.worlddeconomics.com/>

6. Grading System

The course involves the following form of assessment:

- in-class quizzes (typically written at the start of each class)
- two midterm tests (one in the fall semester, another in the spring semester)
- two exams (one in the fall semester, another in the spring semester)

Final grade for the course is an average of the grades for the fall and spring semester.

Grade for the fall semester is computed as:

$0,2 \cdot \text{average for fall semester quizzes} + 0,29 \cdot \text{fall midterm test} + 0,51 \cdot \text{winter exam}.$

Grade for the spring semester is computed as:

$0,2 \cdot \text{average for spring semester quizzes} + 0,29 \cdot \text{spring midterm test} + 0,51 \cdot \text{spring exam}.$

Students that miss winter or spring exam for an objective, documentally verified reason, will be given a make-up exam, but there will be no make-ups for in-class quizzes or midterm tests.

7. Examination Type

All quizzes and tests in the course are in written form, and involve choosing and applying relevant economic concepts and models to answer a specific question. Good answers to larger free response questions are often expected to combine economic intuition (verbal reasoning), graphical analysis and algebra. The latter two, if not accompanied by a clear and unambiguous verbal comments, are usually insufficient for a full credit. Winter and spring exams imitate the format of the external UoL examination for this course, i.e., include a multiple-choice test section and a free-response section.

8. Methods of Instruction

The course uses the following methods and forms of study:

- lectures
- classes (problem-solving sessions)
- self-study
- office hours/consultations