Department of Economics
University of California, Berkeley

Spring 2019

ECONOMICS 2
INTRODUCTION TO ECONOMICS

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COURSE INFORMATION AND PROCEDURES

COURSE DESCRIPTION

Economics 2 provides an introduction to both *microeconomics*, the study of consumer and firm behavior, markets, international trade, and market failures; and *macroeconomics*, the study of economic growth, unemployment, and inflation. Students learn both economic theory and some of the empirical evidence behind the theory. Special emphasis is placed on the application of economic tools to contemporary economic problems and policies.

Economics 2 satisfies all of the same requirements as Economics 1, and either can serve as a prerequisite for any upper-level course that requires introductory economics. Economics 2 differs from Economics 1 in that it has three hours of lecture and one hour of discussion section per week, instead of two hours of lecture and two hours of section. Some of the extra lecture time is used to reinforce concepts with additional examples and explanation (much as one would do in section), and some is used to cover additional topics and go into more depth. Economics 2 is recommended for students planning to major in economics, and for anyone who would like a more comprehensive introductory course.

READINGS

The required textbook for the course is *Principles of Economics*, Seventh Edition, by Robert H. Frank, Ben S. Bernanke, Kate Antonovics, and Ori Heffetz. It is available through the Cal Student Store. There are also a handful of economics research articles that are required reading and available online through the University library.

LECTURE AND SECTIONS

Economics 2 is a four-unit course. There are three hours of lecture per week (Tuesday and Thursday, 2:00–3:30 in 2050 Valley Life Sciences Building) and one hour of discussion section. Incomplete slides for lecture will be available before class for those who would like to print them out and take notes that way. Discussion sections are led by graduate student instructors and are devoted primarily to highlighting important topics from lecture, reviewing difficult material, working through problems, and answering questions.

We have a strict no electronics policy for both lecture and section. Please keep all phones, laptops, and tablets turned off and put away. We want students to be fully engaged and participating actively in lecture and section.

COURSE WEBSITE

Slides, handouts, announcements, and assignments will be posted on the course website:

https://www.econ.berkeley.edu/course/2018-19/spring-2019/economics-2.

ASSIGNMENTS

There are two midterm examinations in the course and six graded problem sets. There is also a final exam that will be given on Monday, May 13, 11:30 a.m.–2:30 p.m. There will be no make-up final. ***If you cannot take the final at the scheduled time, do not take this course.***

The midterm exams will cover material up to and including the preceding lecture. The second midterm will focus on the material covered since the first midterm. There are no make-up midterms. Students who miss midterms with excuses meeting University standards will have their other exams weighted proportionately more.

There are six problem sets. You may work with other students on the problem sets, but your answers must be in your own words and handwritten. You also must list the other students with whom you worked on your answers. The problem sets are due at the beginning of lecture on the date given on the syllabus. Problem sets will not be accepted after the first 10 minutes of class. The problem sets will be graded on a scale of 1 to 10.

GRADING

Your problems sets will be graded by your graduate student instructor. The two midterm exams and the final exam will be graded by all of the GSIs together. The course grade will be calculated as follows: (1) the three-hour final examination is worth 40%, (2) the two midterm examinations are each worth 24%, and (3) the six problem sets are worth 12%.

Because the exams are graded by the GSIs collectively, your individual GSI cannot change the score. If you believe a question has been graded incorrectly, you should submit your concern in writing (along with the exam) to your GSI within one week of getting it back. They will forward your concern to the GSI who graded that particular question.

The course may be taken Pass/Not Pass, if you are otherwise free to do so. Pass/Not Pass students are expected to do the same work as graded students and will receive scores on all assignments. If their final course grade is a C– or better, they will be awarded a Pass.

INSTRUCTOR CONTACT INFORMATION AND OFFICE HOURS

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cromer@econ.berkeley.edu

Professor David Romer
679 Evans Hall
dromer@econ.berkeley.edu

Please use email only for administrative issues; substantive questions about the material are best handled in office hours. Professor office hours for the course will be held in 683 Evans from 1:00–3:00 on Wednesdays. GSI office hours are posted on the course website.

COURSE ASSISTANT

The course assistant is Todd Messer. He is in charge of approving excused absences from a midterm exam, and for arranging accommodation for students with letters from the Disabled Students' Program. You may email him about these and other administrative matters at messertodd@berkeley.edu. So that we can make necessary arrangements, letters requesting accommodation must be received by February 8th.

LECTURE OUTLINE AND READINGS

The chapters listed are from *Principles of Economics*, Seventh Edition, by Frank, Bernanke, Antonovics, and Heffetz. The entire chapter is assigned unless specific pages are given. Appendixes to chapters are not assigned unless noted. The articles listed are available at the links given through the University library. The entire article is assigned unless specific pages are given.

I. FUNDAMENTAL ECONOMIC PRINCIPLES

Tues.	Jan. 22	Scarcity and Choice Chapter 1, including the appendix
Thurs.	Jan. 24	Comparative Advantage and the Gains from Specialization Chapter 2 (pp. 31–47)

II. THE MARKET SYSTEM

Tues.	Jan. 29	Supply and Demand Framework Chapter 3 (pp. 55–78) ***Hand out Problem Set 1***
Thurs.	Jan. 31	Extensions of Supply and Demand Analysis Chapter 4

III. THE BEHAVIOR OF HOUSEHOLDS AND FIRMS

Tues.	Feb. 5	Households and Utility Maximization Chapter 5 "Fairness as a Constraint on Profit Seeking: Entitlements in the Market" by Daniel Kahneman, Jack L. Knetsch, and Richard H. Thaler. https://www-jstor-org.libproxy.berkeley.edu/stable/pdf/1806070.pdf ***Problem Set 1 Due***
Thurs.	Feb. 7	Firms and Profit Maximization Chapter 6 (pp. 149–165 and 168–169)

IV. THE INVISIBLE HAND AND EFFICIENCY

Tues.	Feb. 12	Competitive Firms in the Long Run Chapter 7 (pp. 173–184) ***Hand out Problem Set 2***
Thurs.	Feb. 14	Welfare Analysis Chapter 7 (pp. 187–199) "The Misallocation of Housing under Rent Control" by Edward Glaeser and Erzo Luttmer, (pp. 1027–1032 and 1036–1042). https://www-jstor-org.libproxy.berkeley.edu/stable/pdf/3132277.pdf

V. MARKET FAILURES

Tues. Feb. 19 — Monopoly
Chapter 8 (pp. 203–218)
Problem Set 2 Due

Thurs. Feb. 21 — Externalities
Chapter 11 (pp. 293–306 and 316–321)

Tues. Feb. 26 — ***First Midterm Examination***

VI. LABOR MARKETS AND INEQUALITY

Thurs. Feb. 28 — Labor and Wages
Chapter 13 (pp. 349–361)
"The Impact of the Mariel Boatlift on the Miami Labor Market" by David Card.
https://www-jstor-org.libproxy.berkeley.edu/stable/pdf/2523702.pdf

Tues. Mar. 5 — Rising Inequality
Chapter 13 (pp. 361–370) and Chapter 20 (pp. 539–544)
"Income Inequality in the United States, 1913–1998" by Thomas Piketty and Emmanuel Saez.
https://www-jstor-org.libproxy.berkeley.edu/stable/pdf/25053897.pdf
Hand out Problem Set 3

VII. INTERNATIONAL TRADE

Thurs. Mar. 7 — Comparative Advantage and the Gains from International Trade
Chapter 15 (pp. 397–407)

Tues. Mar. 12 — Supply and Demand Model of Trade and Trade Policy
Chapter 15 (pp. 407–419)
Problem Set 3 Due

VIII. LONG-RUN ECONOMIC GROWTH

Thurs. Mar. 14 — Measurement and Behavior of Real GDP
Chapter 17 (pp. 441–462), Chapter 18, and Chapter 19 (pp. 497–502)

Tues. Mar. 19 — Technological Change and Economic Growth
Chapter 19 (pp. 503–520)
"Do Real-Output and Real-Wage Measures Capture Reality?" by William Nordhaus, (pp. 29–39, 44–60, and 62–65).
http://www.nber.org/chapters/c6064.pdf
Hand out Problem Set 4

IX. CAPITAL AND LABOR IN THE LONG RUN

Thurs.	Mar. 21	Employment and Unemployment in the Long Run Chapter 17 (pp. 463–466) and Chapter 20 "The Power of the Pill: Oral Contraceptives and Women's Career and Marriage Decisions" by Claudia Goldin and Lawrence F. Katz, (pp. 730–731, 739–743, and 748–758). https://www-jstor-org.libproxy.berkeley.edu/stable/pdf/10.1086/340778.pdf
Tues.	Mar. 26	No Class, Spring Break
Thurs.	Mar. 28	No Class, Spring Break
Tues.	April 2	Capital and Interest Chapter 21 (pp. 571–574) and Chapter 23 (pp. 606–616) ***Problem Set 4 Due***
Thurs.	April 4	Saving and Investment in the Long Run Chapter 21 (pp. 553–570 and 574–578)
Tues.	**Apr. 9**	***Second Midterm Examination***

X. SHORT-RUN MACROECONOMIC FLUCTUATIONS

Thurs.	Apr. 11	Planned Aggregate Expenditure and Output Chapter 24 (pp. 629–644), and Chapter 25 (pp. 649–668) ***Hand out Problem Set 5***
Tues.	Apr. 16	Fiscal Policy Chapter 25 (pp. 668–677) "The Macroeconomic Effects of Tax Changes" by Christina Romer and David Romer, (pp. 763–787 and 798–800). https://www-jstor-org.libproxy.berkeley.edu/stable/pdf/27871230.pdf
Thurs.	Apr. 18	Monetary Policy and Financial Markets Chapter 26 (pp. 687–701 and 708–717) ***Problem Set 5 Due***

XI. INFLATION

Tues.	Apr. 23	Inflation and the Behavior of the Federal Reserve Chapter 26 (pp. 717–721) and Chapter 27 (pp. 727–742)
Thurs.	Apr. 25	Inflation Adjustment and the Return to Full Employment Chapter 27 (pp. 742–756) ***Hand out Problem Set 6***

XII. INTERNATIONAL MACROECONOMICS

Tues.	Apr. 30	Exchange Rates and the Balance of Payments Chapter 28 (pp. 765–772 and 777–783)
Thurs.	May 2	Determinants of Net Exports Chapter 23 (pp. 616–625) ***Problem Set 6 Due***

XIII. REVIEW AND SUMMARY

Tues.	May 7	Lessons and Tools of Economics
Mon.	**May 13**	***Final Examination, 11:30 A.M.–2:30 P.M.***

ADDITIONAL REQUIRED READINGS

These articles are available without charge at the web addresses given, provided you access them through a University computer or are logged into the library. For more information on how to connect to the library from off-campus, see: http://www.lib.berkeley.edu/using-the-libraries/connect-off-campus.

Kahneman, Daniel, Jack L. Knetsch, and Richard Thaler. 1986. "Fairness as a Constraint on Profit Seeking: Entitlements in the Market." *American Economic Review* 76 (September): 728–741). https://www-jstor-org.libproxy.berkeley.edu/stable/pdf/1806070.pdf

Glaeser, Edward L., and Erzo F. P. Luttmer. 2003. "The Misallocation of Housing under Rent Control." *American Economic Review* 93 (September): 1027–1046. https://www-jstor-org.libproxy.berkeley.edu/stable/pdf/3132277.pdf

Card, David. 1990. "The Impact of the Mariel Boatlift on the Miami Labor Market." *Industrial and Labor Relations Review* 43 (January): 245–257. https://www-jstor-org.libproxy.berkeley.edu/stable/pdf/2523702.pdf

Piketty, Thomas, and Emmanuel Saez. 2003. "Income Inequality in the United States, 1913–1998." *Quarterly Journal of Economics* 118 (February): 1–39. https://www-jstor-org.libproxy.berkeley.edu/stable/pdf/25053897.pdf

Nordhaus, William D. 1997. "Do Real-Output and Real-Wage Measures Capture Reality? The History of Lighting Suggests Not." In *The Economics of New Goods* edited by Timothy F. Bresnahan and Robert J. Gordon. Chicago: University of Chicago Press for NBER, pp. 29–66. http://www.nber.org/chapters/c6064.pdf

Goldin, Claudia, and Lawrence F. Katz. 2002. "The Power of the Pill: Oral Contraceptives and Women's Career and Marriage Decisions." *Journal of Political Economy* 76 (August): 730–770. https://www-jstor-org.libproxy.berkeley.edu/stable/pdf/10.1086/340778.pdf

Romer, Christina D., and David H. Romer. 2010. "The Macroeconomic Effects of Tax Changes: Estimates Based on a New Measure of Fiscal Shocks." *American Economic Review* 100 (June): 763–801. https://www-jstor-org.libproxy.berkeley.edu/stable/pdf/27871230.pdf