THE NEW SCHOOL
Milano: The New School for Management and Urban Policy
MEFI 5060
CRN 1550

Economics for Management and Public Policy

Spring 2011
Syllabus
(Updates will be posted on Blackboard and announced in class)

Prof Vivette Ancona
Office 72 Fifth Ave, Room 425
anconav@newschool.edu
Office Hours: by appointment.

Class Wednesdays 6:00-7:50PM
6 East 16 Room 1107

Labs: Monday 6-7:50PM at 6 East 16 Room 1001
Or Monday 8-9:50PM at 6 East 16 Room 1107
GA: Mosaab Mustafa <mosaab@mac.com>

Course Description

This, an introductory course in applied microeconomics, is a core course for Milano students.

You can think of microeconomics as useful on three levels. The first is daily life. "Thinking like an economist" means weighing costs and benefits, accounting for incentives, and making decisions on the basis of effects at the "margin" – it's not the average costs that matter (those may include "sunk" costs that are irrelevant), but the additional costs associated with a decision. Of course, while we're thinking like an economist, we should also be thinking as a community member and family member! There is significant overlap, but it's far from perfect (there's a big divide among economists on this question).

The second level consists of economic tools for efficient decision making as managers and policy makers. In addition to "thinking like an economist," decision makers in positions of power (in organizations and in the political sphere) need analytical concepts and tools, many of which are covered in basic micro. These include the concepts of "elasticity" (e.g., of demand and supply), "comparative advantage," "externalities", "public goods" and models of strategic interaction (game theory).

The third level is concerned with "big picture" questions that nevertheless have important implications for us as managers, policy makers, community members and individuals. The central question here concerns the proper role of the state in a market economy. What should be left to *markets*, where individuals and firms are often assumed to pursue their *self-interest*, and what roles should be played by government policies and programs that are supposed to promote

the *public interest*. Complicating the picture, what are the proper roles for nonprofit organizations? More specifically: What mix of private and public activities achieves the greatest efficiency and equity for a given local community, for the national "community," and for the global community?

Readings:

Main Text

- David C. Colander Microeconomics, 8th Edition, (McGraw Hill, 2010) paper.

Supplemental Texts

- John Cassidy, How Markets Fail: The Logic of Economic Calamities (Farrar, Straus and Giroux, 2009)
- George A. Akerlof and Robert J. Schiller, Animal Spirits: How Human Psychology Drives the Economy, and Why it Matters for Global Capitalism (Princeton, 2009).
- Charles Wheelan, Naked Economics: Undressing the Dismal Science (Norton, 2010) paper

Other recommended readings are included in certain sessions on the outline below. "BB" indicates that the reading will be posted on Blackboard.

Students should read the **daily business press** and be prepared to discuss current events in class, (see below).

Course Requirements:

Grading will be based on two mid-term exams (20% each), lab assignments (10%), class participation including in-class presentations (10%) and a final cumulative exam (40%).

Exams may be held during lab time. Dates will be announced..

Lab assignments will consist of weekly problem sets. You may prepare the problem sets as a group or individually. If you wish to work as a group, each group should prepare only one solution set with the names of all the group members on the front page. Problem solution sets should be handed in to the Graduate Assistant at the beginning of each session. (If you cannot attend the Lab, please make arrangements with the GA as to how to hand in the PS BEFORE the Lab session.). The GA will go over the assigned problem set and answer student questions on the problem set and on the economic concepts presented in the previous class. Students must sign up for the lab sessions and should attend as many sessions as possible.

The "presentations" will consist of news items/case studies and discussion presentations and may be prepared as a group or individually.

A "discussion presentation" should summarize and evaluate one or more of the recommended readings in light of the other readings for that session and your own views. Please prepare "presentations" of as many of the recommended readings listed below as you can. All readings listed below are to be considered recommended except for the chapters from Colander's

Microeconomics and Macroeconomic texts, which are required. At the end of the semester, you may, if you wish, hand in your notes on the recommended readings to enhance your class participation score.

A news item/case study to be prepared either in a group or individually, should focus on the managerial implications of the concepts studied using a current event as illustration. The event should be chosen by the students and should be current, within the last two months. Students may also use personal or business experience to prepare the case study. Again, you may, if you wish, hand in your notes on the news items at the end of the semester.

Individual students can enhance their grade by active participation in class discussions.

No make-up exams will be offered. Students who miss a midterm for serious reason (e.g. serious illness/hospitalization) may, at the discretion of the instructor, have their grades reweighed. Students who miss the Final will receive an F. An Incomplete will only be given at the discretion of the instructor and only in documented cases of serious illness/hospitalization.

Course Outline

(Dates for exams etc. should be considered provisional and subject to confirmation)

Course Overview (January 26)
Colander, Preface for the Student
Colander, Chapter 1: Economics and Economic Reasoning
Colander, Chapter 6: Thinking like a Modern Economist
Colander, Chapter 3: "Economic Institutions" (with Appendix)
Colander, Appendix A to Chapter 2 "Graphish: The Language of Graphs"
Wheelan, Chapters 1-2
Cassidy, "Introduction" (3-14)
Akerlof and Schiller, "Preface" and "Introduction"

Lab Math review (January 31)

Trade and Globalization (February 2)
Colander, Chapter 2: "The Production Possibility Model, Trade, and Globalization"
Colander, Chapter 9: "International Trade Policy, Comparative Advantage and Outsourcing"
Wheelan, Chapter 11: "Trade and Globalization"

Lab: (Feb 7)Problem Set from Colander Chapters 2 and Appendix and Chapter 9 due before Lab and reviewed during Lab

Supply and Demand I (February 9)
Colander, Chapter 4: "Supply and Demand"
Colander, Chapter 5: "Using Supply and Demand"

Lab: (Feb 14) Problem Set from Colander Chapters 4 and 5 due before Lab and reviewed during Lab

Applications of the Supply and Demand model: Elasticities and Government Intervention (February 16)
Colander, Chapter 7: "Describing Supply and Demand: Elasticities"
Colander, Chapter 8: "Taxation and Government Interventions,"
Liana Fox, "Minimum Wage Trends: Understanding past and contemporary research," EPI Briefing Paper #178, Economic Policy Institute, Nov. 8 2006. **BB**
Becker and Posner: Minimum Wages **BB**
W. Tucker, "How Rent Control Drives Out Affordable Housing," Cato Policy Analysis no. 274 (1997). **BB**

Lab (Feb 21) University Holiday. A Lab will be scheduled on another day this week to cover the PS from Colander Chapters 7 and 8

Behind Demand: Individual choice and social norms (Feb 23)
Colander, Chapter 10: "The Logic of Individual Choice: the foundation of supply and demand" and Appendix A: "Indifference Curve Analysis
Franz B. M. de Wall, "How Animals Do Business," Scientific American (April 2005). **BB**

Lab: (February 28) Problem Set from Colander Chapter 10 and Appendix due before Lab and reviewed during Lab. Midterm1 review.

Midterm 1 Mar 2

Lab, March 7, post midterm1 review**.**

The Supply Side: the production process and costs (March 9)
Colander, Chapter 12: "Production and Cost Analysis I"
Colander, Chapter 13: "Production and Cost Analysis II"

Lab: (Mar 21) Problem Set from Colander Chapters 12 and 13 due before Lab and reviewed during Lab

Market Structure (March 23)
Colander, Chapter 14: "Perfect Competition"
Colander, Chapter 15: "Monopoly"
Colander, Chapter 16 "Monopolistic Competition and Oligopoly"
Dean Baker, Chapter 1: "Doctors and Dishwashers: How the Nanny State Creates Good Jobs for Those at the Top," in *The Conservative Nanny State* (downloadable from the Center for Economic and Policy Analysis (CEPR).
Dean Baker, Chapter 4: "Bill Gates – Welfare Mom: How Government Patent and Copyright Monopolies Enrich the Rich and Distort the Economy," in *The Conservative Nanny State* (downloadable from the Center for Economic and Policy Analysis (CEPR).
Akerlof and Schiller Chapter 11 "Why are Financial Prices and Corporate Investments so

volatile"

Lab: (March 28) Problem Set from Colander Chapters14, 15, 16 due before Lab and reviewed during Lab

Imperfect Information, Game Theory and Real World Competition (March 30)
Colander, Chapter 11: "Game Theory, Strategic Decision Making, and Behavioral Economics"
Colander, Chapter 17: Real-World Competition and Technology"
Wheelan, Chapter 5: "Economics of Information"
Cassidy, Chapter 11 " The Prisoner's Dilemma and Rational Irrationality"
Cassidy, Chapter 12 " Hidden Information and the Market for Lemons"

Lab: (April 4) Problem Set from Colander Chapters 11 and 17 due before Lab and reviewed during Lab

Work, Wages and the Labor Market (April 6)
Colander, Chapter 19: "Work and the Labor Market"
Wheelan, Chapter 6: "Productivity and Human Capital"
Akerlof and Schiller Chapter 8 "Why are there people who cannot find a job?"
Akerlof and Schiller Chapter 13 "Why is there special poverty among minorities?"

J. Stiglitz, " Employment, Social Justice, and Societal Well-Being," *International Labor Review* (2002). **BB**
Josh Bivens, "Globalization, American Wages and Inequality, EPI Working Paper (Sept. 2007). **BB**
J. Stiglitz, "The global crisis, social protection and jobs" *International Labor Review*, vol. 148, no. 1-2 (2009)

Lab (Apr 11) Problem Set from Colander Chapter 19 due before Lab and reviewed during Lab

Market Failures, the Environment, Nonprofits, and the Role of Government (April 13)
Colander, Chapter 21: "Market Failure versus Government Failure"
Wheelan, Chapter 3 "Government and the Economy"
Wheelan, Chapter 4: "Government and the Economy II"
Wheelan, Chapter 8: "The Power of Organized Interests"
Cassidy, Chapter 9 The Prof and the Polar bears
Cassidy, Chapter 10 "A taxonomy of failure"
Gronbjerg, "Markets, Politics and Charity" **BB**
Thomas C. Kinnaman, "Examining the Justification for Residential Recycling", *Journal of Economic Perspectives* (fall 2006) **BB**
Leape, "The London Congestion Charge", *Journal of Economic Perspectives*), 2006**BB**
Fullerton, "How Economists see the Environment" *Nature* 1998 **BB**

Lab(April 18) Problem Set from Colander Chapter 21 due before Lab and reviewed during Lab

Macroeconomics an introduction (April 20)
Colander in Macroeconomics, "Economic Growth, Business Cycles, Unemployment, and Inflation" **BB**
Colander in Macroeconomics Growth, Productivity and the Wealth of Nations
Akerlof and Schiller, Chapter 6: "Why Do Economies Fall into Depression"
Akerlof and Schiller, Chapter 7 "Why do central bankers have power over the economy"
Akerlof and Schiller, Chapter 9: "Why is There a Trade-off between Inflation and Unemployment in the Long Run?"

Lab: (April 25) Problem Set from Colander Macroeconomics, both chapters due before Lab and reviewed during Lab

Midterm 2 April 27

Lab (May 2) Review of Midterm 2

Theory and Policy: Implications, Limits and the current economic crisis (May 4)
Colander, Chapter 22: "Behavioral Economics and Modern Policy
Colander, Chapter 23: "Microeconomic Policy, Economic Reasoning, and Beyond
Cassidy, Chapter 16 Hyman Minski and Ponzi Finance
Cassidy, Chapter 17 Greenspan shrugs
Paul Krugman "How did Economists get it so wrong?" New York Times Magazine, September 6 2009

Lab (May 9) Problem set review

Course wrap-up and review (May 11)

Final Exam during Labs on May 16