

Introduction

Administration

Substance

Policy Questions

Administration

1. who should take this course
2. contacting me
3. answers to administrative questions
4. grading
5. textbooks
6. schedule
7. hints

Contacting me

- office hours: T 3:30-5:30; Th 4:30-6:30
- by appointment
- rausser@are.berkeley.edu
- 642-9591
- mail box in 207 Giannini
- (do not give GSI's messages for me - me directly)



Administration

List server

Please subscribe:

CalMail website

send email message to

majordomo@lists.berkeley.edu with the

body being:

[subscribe econ100aspring2006](#)

Class participation

- please give me feedback about speed, sound level, technology, ...
- speaking up in class and sections: comments and questions are always welcome. Along with pop quizzes, active participation will represent 10 percent of your grade

Admission

- Telebears
- see Desiree N. Schaan
dschaan@econ.Berkeley.EDU
508-2 Evans (first 2 weeks of the term)

Administrative questions

- ask general administrative questions in class
- please review description tab on web site

Administrative remedies

- “I've been sick...” or “My roommate ate my lecture notes” See your GSI
- “I'm very sick - I would like an incomplete”
 - get an incomplete grade requests from either Sproul or Campbell Hall and Dept. of Economics and attach the medical records
 - have me sign it
- “I have a disability”
 - tell your TA and me
 - bring me the official UC forms

Grading - Exams

- I will write the exams (with the GSI's help) and determine question point allocations
- GSI's grade the exam
- *no make-up exams*
- we will vote on the number and type of exams
- weighting (if we have 2 midterms):
 - 20% midterm 1
 - 25% midterm 2
 - 35% final exam
 - 10% five problem sets
 - 10% class and section participation, pop quizzes (or approved research project)

Textbooks

- Pindyck & Rubinfeld, *Microeconomics*, 6th Ed.
- Optional study guide by Pindyck & Rubinfeld, 6th Ed
- Wall Street Journal or Business Section of NY Times

Administrative Details

- Discussion Section and GSIs
 - 16 sections, 2 meetings per week, 8 GSIs
 - Review lecture material, work problems, go through PSs and midterms
 - Section participation

Administrative Details

- Problem sets
 - 5 Problem sets (and answers) posted to course website
 - Approximately one week to complete, graded by your GSI
 - One can submit as “study group” from same GSI (3 or less can form a study group)

Hints

- attendance
- class/section participation
- do extra problems (e.g., from the reader or the web site)
- read two textbooks

What raises grades in Econ 100A

- numerical grades on the first 2005 midterm: 8 to 96, mean = 53
- attending section had a linear effect on grades
 - 10% more section session: +1.3 points
 - all section meetings vs. none: 13 extra points
- attending lecture had nonlinear effect
 - half vs. none: +12 points
 - all vs. three-quarters: 4 extra points

Grades in Econ 100A (cont.)

- attend all lectures and sections, read everything, and hand in all HW assignments vs. half lectures, half reading, +20 points
- substantial effect given the mean was 53

Fair Warnings

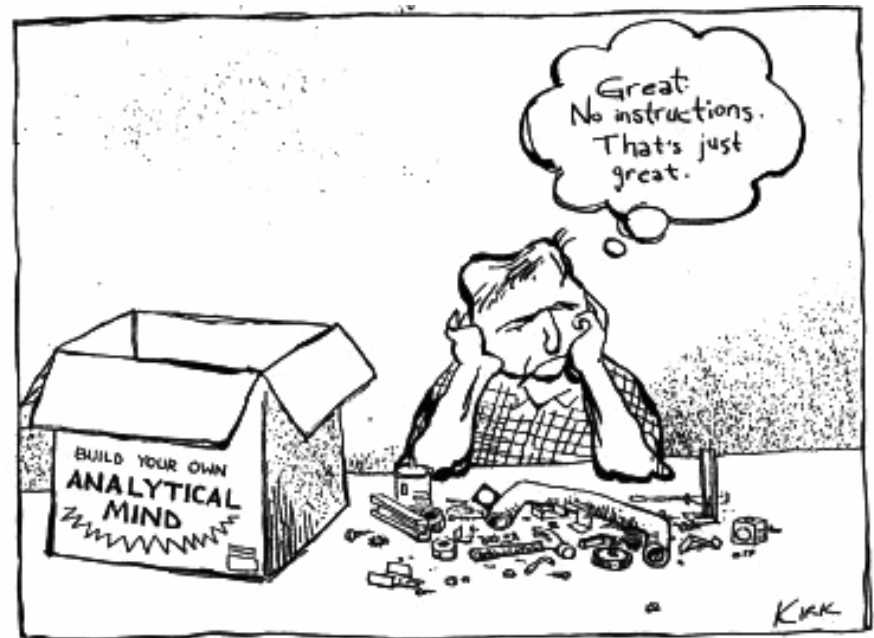
- e-mail policy (no admin. questions)
- falling behind
- exam policy (no make ups)

Why be an economist?

- attract members of the opposite sex (or same, or both, if you prefer)
- good preparation for graduate studies, law, business
- higher earnings
- run a business better: Mars Candy Co.
- court cases
- vote intelligently (minimum wage, flat tax, NAFTA, GATT, rent control, immigration laws, pollution)

Purposes of course

- to think like an economist: explain and predict
- create models
- analyze newspaper articles
- solve problems
- improve quality of discourse with friends
- understand the core principles of self-interest, the public-interest, and incentives



Students' Economic Problem

Decisions, Decisions

Enroll in the course, buy the book, attend lecture and discussion, amount of studying

Become an econ major, go on to grad school, etc., etc.

Benefits

Short-run: improved performance in course

Long-run

Increased lifetime earnings

Discounted to present

Expressed in expected terms

Social benefits (spillovers)

Students' Economic Problem

- Costs

Direct cost: tuition

- $\$3,200 \times \frac{1}{4} = \$800/\text{course} \rightarrow \$25/\text{lecture}$

Indirect cost

opportunity cost

other courses, work, sleep, TV, all the above

Students' Economic Problem

Choices

- Maximize difference between (private) benefits and the (private) cost of spending time on this course
- Constrained by 24 hours in a day
- Solution: equate marginal benefit and marginal cost

Graphical analysis

Graphical analysis



Mathematical Analysis

Science vs. Values

- *positive* questions:
 - what is the effect of a quota on the price of cars?
 - who gains and who loses?
 - what will happen if...
- *normative* questions:
 - should we impose a quota?
 - what is the best policy?

Efficiency vs. Equity

- biggest pie versus shares of pie
- economists concentrates on efficiency

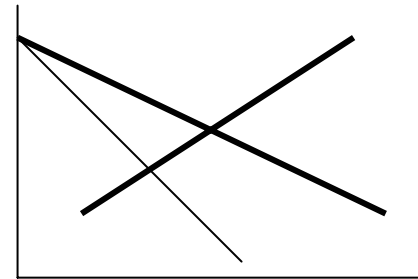
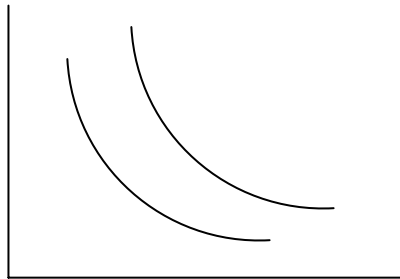
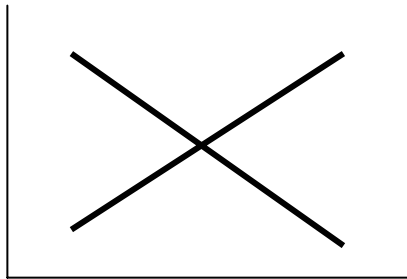
Secrets 1

- (secret hand shake last class)
- the answer to most questions:
 - in chemistry: it's the electrons and how they are arranged in space
 - in economics: $MB = MC$
(that is, maximization)

Secrets 2

there are only three important diagrams,
which are constantly being relabeled:

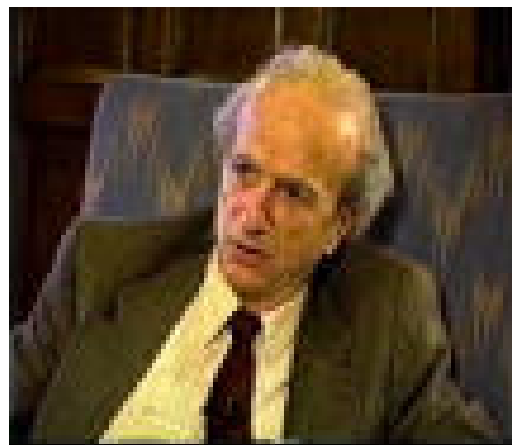
- supply-demand
- indifference curve-budget line or isoquan-
isocost
- monopoly



Secrets 3

economics explains everything (Gary Becker):

- love = interdependent utility functions
- health economics
- Sociology
- why self-interest -
rationality!!



Market



- market: an exchange mechanism that brings together buyers and sellers to facilitate trade
- industry: collection of firms that sell the same or closely related products:
 - an industry is the supply side of the market
 - lawyers draw a distinction between “industry” and “market”

Competitive vs. noncompetitive markets

- *perfectly competitive markets*: no buyer or seller can have a significant impact on the market price
- we start by studying competition
- analogy to physics: study the relationship between objects without atmosphere, friction, gravity,... then add complications

Partial vs. general equilibrium

- partial equilibrium: examine a single market or industry (or individual or firm)
- general equilibrium: examine several industries at once
- macroeconomics asks how government actions and other large-scale phenomena affect all industries at once

Real vs. nominal prices

- we use *real* rather than *nominal* prices
- *nominal price* is the current price in *current dollars*
- *real price* or *constant dollar price* is the price relative to an aggregate measure of prices, the Consumer Price Index (CPI)



Game Theory



- *A Beautiful Mind*
- means of analyzing strategic interactions between firms, employers and employees, and other “players”

Policy Questions

Taxes

- How does President Bush's income tax cut proposal differ from that of the Democrats? What effect are they likely to have on labor supply?
- How progressive (tax rate increases with income) or regressive (tax rate decreases with income) are the Californian and federal income taxes?
- Can a flat tax be progressive?

Subsidies

The government provides poor people with food stamps and child-care subsidies.
Would they be better off if they received a comparable amount of cash?

Whose preferences count?

Lotteries

- Why do people gamble and buy insurance?
- What effect does winning the lottery have on the winners' labor supply?

Fat and Sugar Tax

- Proposal have been made (and in some cases enacted) in California and elsewhere to tax fats and sugars to promote health (and raise tax revenues). How much do these taxes effect the prices consumers pay?
- How effective are these taxes in changing diets?

Internet

- What effect does the Internet have on competition?
- What effect does exempting Internet transactions from sales taxes have on “click versus brick” sales?

Price Controls

- In 2002, Zimbabwe imposed price controls on many staples. What effect did these controls have on those markets?
- What effect did the Zimbabwe price controls have on neighboring countries' markets?
- In 2002, Los Angeles imposed a ban on new billboards. Owners of existing billboard did not oppose the ban. Why?

Rent Controls

- Which cities have rent control? Any in California? Who benefits and who loses from rent control?

Minimum Wage

- Theoretically, must the minimum wage raise unemployment?
- What effect does the minimum wage have on unemployment and on wages?
- Federal vs. State setting of minimum wages

Living-Wage Laws

- Between 1996 and 2002, 82 cities and counties in the United States enacted living-wage laws. What effect do these laws have on wages of covered and not-covered workers? What other effects do they have?

Abortions

- How sensitive is the demand for abortions to the price of abortions?
- How competitive are the markets for abortion?

Trade

- In 2002, the World Trade Organization, which referees global trade disputes, ruled that the European Union could impose \$4 billion in retaliatory tariffs on U.S. exports in compensation for illegal U.S. tax breaks that promote exports. What has happened to U.S. trade with the European Union?
- In 1807-1809, President Thomas Jefferson and the Congress imposed an embargo on trade with Europe. How can we use this “natural experiment” to determine the value of trade?

Monopolies

- Iceland has granted a firm a monopoly to create a genetic database of its citizens. Why is such a monopoly valuable? What effect is such monopolization likely to have on research?
- Estimate the effect of the Botox patent monopoly on prices and consumers' well-being.

Magazines

- What major changes have taken place in the market for magazines recently?
- How have changes in advertising affect the prices charge for magazine subscriptions and why?

Insurance

- Why did some insurance companies refuse to offer insurance for building and public spaces after 9/11? How did the U.S. government intervene?
- Insurance companies also refuse to provide earthquake and hurricane insurances in some areas. Why? Under what conditions will an insurance company offer insurance and when will it refuse?

Pollution

- Are President Bush's environmental policies substantially different from those of his predecessors?
- What effect will President Bush's environmental policies have on California and the nation?
- Perform a cost-benefit analysis of one or more environmental policy.

Pollution

- Southern California has a market for pollution. How well is it working? What are the advantages of using a market over direct regulation?
- Under what conditions are pollution taxes preferable to quantity controls on pollution? When are quantity controls better?

Other Externalities

What effect do SUVs have on auto deaths of their owners and of other drivers?

Constrained optimization

Optimize an objective function
Subject to (s.t.) a constraint

Agent	C.O. Problem	Choices	Exogenous
Household	Maximize utility s.t. budget	Product bundles	Product prices and information
Firm	Maximize profit s.t. technology and input prices	Output, prices, inputs	Competitors' prices, interest rate, technology, weather
Government	Maximize aggregate welfare s.t. nation's resources	Taxes, subsidies, benefits	Population, climate

Course Outline

- Logical roadmap
- Consumer and producer behavior
- Perfect competition and pure monopoly
- Imperfect competition and market failures