

Fayetteville State University

School of Business and Economics

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II. COURSE DESCRIPTION

ECON 540 (3-3-0) Fundamentals of Economics: This course explores the application of microeconomic theory to management decisions and examines the consequences of macroeconomic policies upon businesses in the global market place.

III. DISABLED STUDENT SERVICES

In accordance with Section 504 of the 1973 Rehabilitation Act and the Americans with Disabilities Act (ACA) of 1990, if you have a disability or think you have a disability to please contact the Center for Personal Development in the Spaulding Building, Room 155 (1st Floor); 910-672-1203.

IV. REQUIRED READINGS

Robert H. Frank & Ben S. Bernanke. *Principles of Economics*, 3rd Edition, 2007. Boston: Irwin-McGraw-Hill.

Link to price quotes for the the 3rd edition of the text:

<http://www.allbookstores.com/book/compare/0073125679>

In what follows this textbook will be referred to as F&B.

The class will also have some additional required readings which will be handed out in class and/or made available through blackboard links.

V. COURSE OBJECTIVES & LEARNING OUTCOMES

This course gives you an introductory survey of the concepts, issues, problems, and ideas of economics. To this end, the course will largely focus on a few basic general economic concepts and principles and the implications of these.

1. Scarcity: All choices have an opportunity cost.
2. Costs and benefits: A choice makes sense *if and only if* the marginal benefits from the choice are at least as great as the marginal opportunity costs of the choice.
3. Incentives: In general, people tend to make choices that maximize their benefits and minimize their costs.
4. Comparative Advantage: Sellers have a comparative advantage in markets where their relative opportunity cost is lower than that of other potential sellers.
5. Equilibrium Adjustment: Prices tend to rise in markets where the quantity demanded exceeds the quantity supplied and they tend to fall in markets where the quantity supplied exceeds the quantity demanded.
6. All Trade is Bilateral: Nothing can be sold unless someone is willing to buy and nothing can be bought unless someone is willing to sell the item in question. (Note that whenever you trade one item for another, you are selling the item that you give up and buying the item you receive in return. Thus, when you spend a dollar on a cup of coffee, in one sense you are selling the dollar and receiving the coffee as payment for the dollar you sold. Similarly, the coffee seller is buying your dollar and paying for it with a cup of coffee.)
7. Say's Principle: The total value of what you can buy depends on the total value of what you have to sell.
8. Aggregative Version of Say's Principle: If nobody ever plans to sell anything except things that other people are both willing and able to buy at the offered price, then, we should not (by the rules of logic) see a sustained glut (or excess supply) in any market. The corollary is that all gluts (including unemployment) are based on some sort of coordination failure.

These basic ideas yield a foundation for reasoning and thinking about economic problems and issues. The primary objective of this course is to give you a sound and intuitive understanding of these ideas. Along the way, the course will show you how mastery of these ideas, along with a few relatively simple analytical tools, can be used to obtain new and often counter-intuitive insights that may affect your perspective on personal and managerial decisions as well as management strategies and economic policy. In short:

1. The course should give you an understanding of the basic issues, concepts, tools, and techniques of economics.
2. After finishing this course, you should be able to use economic reasoning to obtain a better understanding of current issues and new situations.
3. You should be able to develop a more critical and analytical view of economic issues and thus become a better decision maker, a better participant in economic organizations, and a better leader and manager.

VI. EXAMS AND GRADES

Exams: There are three exams scheduled for the semester. The first two of these exams will be closed-book exams to be given in class on February 22nd and on April 12th. The third exam will be a take-home exam that you will receive on April 26th and which you must turn in before midnight on May 4th.

The Structure of the Exams: The first two exams will require you to choose and answer five of six essay and/or problem-type questions from the material covered during the relevant segment of the course. Each of these questions will be worth 20 points, yielding a maximum of 100 points per exam. The final exam will be a comprehensive open-book take-home exam to be turned in on line and it will be worth 100 points.

Assignments: The course will also have a number of assignments. Each of these assignments will be graded on a 0-10 scale. Missed assignments will yield a score of zero, and there will be no make-ups for these. Your cumulative score on these assignments will then be multiplied by ten, and divided by the number of assignments, to yield an overall assignment score that ranges from 0-100.

Overall Scores and Grades: Note that adding the total exam and assignment scores yields a total overall score ranging from 0-400. However, in assessing your overall performance, I will give more weight to your higher scores and less weight to your lower scores. In other words, I will rank your scores from the three exams and the assignments from the highest to the lowest so that $score1 \geq score2 \geq score3 \geq score4$, and then I will calculate your overall score as follows:

$$\text{Overall Score} = 1.3(score1) + 1.1(score2) + 0.9(score3) + 0.7(score4)$$

Adding the total exam and assignment scores in this manner still yields an overall score ranging from 0-400. This score will then be transformed into letter grades as follows:

A	=	360-400	Points
B	=	320-359	Points
C	=	280-319	Points
F	=	< 280	Points

VII. COURSE OUTLINE AND ASSIGNMENT SCHEDULE

Date	Topic	Readings
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Tuesday, January 11 th	<ul style="list-style-type: none"> • Introduction to the Issues and Methods of the Course. • Scarcity and Choice • Diagrams and Graphs (+ using Excel Charts) • Economic Behavior: An Overview of Recent Ideas from Behavioral Economics • Economics as Ethics 	F&B, Chapter 1 Class Handout
Tuesday, January 18 th	<ul style="list-style-type: none"> • Comparative Advantage: The Basis for Exchange • Production Possibilities • Exchange Arrangements (Different Kinds of Markets, Institutions and Central Planning) • An Brief Overview of Supply and Demand 	F&B, Ch. 2-3
Tuesday, January 25 th	<ul style="list-style-type: none"> • Supply and Demand: Examples and Exercises. 	F&B, Chapter 3
Tuesday, February 1 st	<ul style="list-style-type: none"> • Elasticities of Demand and Supply • Demand and Utility Maximization • Market Demand • Consumer Surplus 	F&B, Ch. 4-5
Tuesday, February 8 th	<ul style="list-style-type: none"> • Market Structure • Perfect Competition & the Behavior of Perfectly Competitive Firms • Producer Surplus • Efficiency and Exchange 	F&B, Ch. 6-7
Tuesday, February 15 th	<ul style="list-style-type: none"> • Imperfect Competition • Monopoly, Monopolistic Competition and Oligopoly • Game Theory and the Concept of Nash Equilibrium • Review for Exam No. 1 	F&B, Ch. 10-11
Tuesday, February 22 nd	Exam no. 1	
Tuesday, March 1 st	<ul style="list-style-type: none"> • Market Failure • Externalities, Unclear Property Rights, Public Goods, Imperfect Information 	F&B, Ch. 12,13 and 16

Tuesday, March 8 th	<ul style="list-style-type: none"> • Say's Principle and Relationships Between Markets • Macroeconomic Issues and the Microfoundations of Macroeconomics • Measures of Aggregate Economic Activity • Nominal vs. Real GDP • Unemployment 	Class Handout F&B, Ch. 17-18
Tuesday, March 15 th	<ul style="list-style-type: none"> • Inflation • Long Term Economic Growth • The Wealth and Poverty of Nations • Labor Markets in the US • Savings, Investment and Capital 	F&B, Ch. 19-22
Tuesday, March 22 nd	<ul style="list-style-type: none"> • The Nature and Role of Money • Money Creation • The Federal Reserve System • Money and the Price Level • Recent Federal Reserve Actions 	F&B, Chapter 23
Tuesday, March 29 th	<ul style="list-style-type: none"> • Economic Instability and Economic Stabilization • The Keynesian View • Monetary Policy and the Role of the Federal Reserve. 	F&B, Ch. 25-27
Tuesday, April 5 th	<ul style="list-style-type: none"> • Aggregate Supply and Demand • Review for Exam No. 2 	
Tuesday, April 12 th	Exam no. 2	F&B, Chapter 28
Tuesday, April 19 th	<ul style="list-style-type: none"> • Applications and in-class exercises 	
Tuesday, April 26 th	<ul style="list-style-type: none"> • Applications and in-class exercises • <i>Distribution of Take-Home Final Exam</i> 	
Tuesday, May 3 rd	<ul style="list-style-type: none"> • Applications and in-class exercises 	
Wednesday, May 4 th	<i>Take-Home Final Exam is due in the Blackboard Digital Drop Box before midnight.</i>	

VIII. TEACHING STRATEGIES

Each class will start out with a lecture to be followed by in-class assignments and/or class discussions. The course will rely heavily on student input. In this course, even though there is a given list of topics to be covered, the students will have some say in how each of these topics is handled.

IX. BIBLIOGRAPHY & SUGGESTED READINGS

BACKGROUND & REVIEW:

D. Besanko, et al., *Economics of Strategy* (5th Edition). Hoboken: John Wiley & Sons, 2009.

R.H. Frank. *Microeconomics and Behavior* (5th edition). Boston: Irwin-McGraw-Hill, 2006.

M. Hirschey. *Fundamentals of Managerial Economics*. (8th edition). Mason OH: Thomson South-Western, 2006.

GENERAL INTEREST:

C. Fishman. *The Wal-Mart Effect*. New York: The Penguin Press, 2006.

Thomas L. Friedman. *The World Is Flat*. Farrar, Straus and Giroux, 2006.

BEHAVIORAL ECONOMICS*:

Ariely, Dan, Uri Gneezy, George Loewenstein, and Nina Mazar. 2009. "Large Stakes and Big Mistakes." *Review of Economic Studies* 76, no. 2: 451-469.

Lee, Leonard, On Amir, and Dan Ariely. 2009. "In Search of Homo Economicus: Cognitive Noise and the Role of Emotion in Preference Consistency." *Journal of Consumer Research* 36, no. 2: 173-187.

Pesendorfer, Wolfgang. "Behavioral Economics Comes of Age: A Review Essay on Advances in Behavioral Economics." *Journal of Economic Literature* 44, no. 3 (September 2006): 712-721.

Bernheim, B. Douglas, and Antonio Rangel. 2009. "Beyond Revealed Preference: Choice-Theoretic Foundations for Behavioral Welfare Economics." *Quarterly Journal of Economics* 124, no. 1: 51-104.

*You can get copies of each of these journal articles from EconLit in the FSU library collection of electronic databases.