

**ECONOMICS 2  
INTRODUCTION TO ECONOMICS**

**COURSE INFORMATION AND PROCEDURES**

**COURSE DESCRIPTION**

Economics 2 provides an introduction to economic principles and methods. It examines both *microeconomics*, the study of consumer choice, firm behavior, and market interaction, and *macroeconomics*, the study of economic growth, unemployment, and inflation. Students learn both economic theory and some of the empirical evidence supporting it. Special emphasis is placed on the application of economic tools to contemporary economic problems and policies.

Economics 2 satisfies all the same requirements as Economics 1. Economics 2 differs from Economics 1 in that it has three hours of lecture and one hour of discussion per week, instead of two hours of lecture and two hours of discussion. The additional hour of lecture allows the material to be presented more systematically and in somewhat greater depth than is possible in Economics 1. Economics 2 is recommended for students intending to major in economics, and for anyone interested in a more comprehensive introductory course.

**OFFICE HOURS**

Professor Romer's office hours are Thursdays, 2-4 in Room 681 Evans Hall. There are five graduate student instructors for the course who also provide individual help during office hours. Your GSI will announce his or her office hours at the first section meeting.

**READINGS**

The text for the course is Principles of Economics, Third Edition, by Robert Frank and Ben Bernanke. It is available at the ASUC Store and other local bookstores. There is also a short reader for the course, which is available at Copy Central at 2560 Bancroft Way.

There will be periodic handouts in lecture. Handouts and other course information will be available on the course website:

**[http://emlab.berkeley.edu/users/webfac/cromer/e2\\_sp08/e2.shtml](http://emlab.berkeley.edu/users/webfac/cromer/e2_sp08/e2.shtml)**

**DISCUSSION SECTION**

Economics 2 is a four-unit course. There are three hours of lecture per week (Tuesday and Thursday, 12:30-2:00 in 105 Stanley) and one hour of discussion section. The discussion sections are led by graduate student instructors and are devoted primarily to highlighting important topics from lecture, discussing problem sets, and working through examples.

**You must attend your assigned discussion section meetings during the first two weeks of classes. If you do not, you will be dropped from the course and your space will be given to someone else.**

## **COURSE REQUIREMENTS**

There are two midterm examinations in the course and five graded problem sets. There is also a final exam that will be given on Tuesday, May 20, 5-8 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 examinations will cover material up to and including the preceding lecture. The second midterm will focus on the material covered since the first midterm. Sample midterms will be provided. There are no make-up midterms. Students who miss midterms with excuses meeting University standards will have their other exams weighted proportionately more. Excuses must be approved by Professor Romer before the examination.

There are five problem sets. You may work with other students on the problem sets, but the written answers must be in your own words. 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 GSI's 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 25%, and (3) the five problem sets are worth 10%.

Because the exams are graded by the GSI's 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. He or she 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.

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### **COURSE OUTLINE AND READING ASSIGNMENTS**

The chapters listed are from Principles of Economics, Third Edition by Robert Frank and Ben Bernanke. The entire chapter is assigned unless specific pages are given. Appendixes to chapters are not assigned unless noted. The articles listed are from the reader.

Tues. Jan. 22 Course Organization and Introduction to Economics

#### **I. FUNDAMENTAL PRINCIPLES**

Thurs. Jan. 24 Scarcity and Choice  
Chapter 1, including the appendix

Tues. Jan. 29 Comparative Advantage and the Gains from Specialization  
Chapter 2

#### **II. THE MARKET SYSTEM**

Thurs. Jan. 31 The Supply and Demand Framework  
Chapter 3  
**Hand out Problem Set 1**

Tues. Feb. 5 Extensions of Supply and Demand Analysis  
Chapter 4

#### **III. HOUSEHOLDS AND FIRMS**

Thurs. Feb. 7 The Behavior of Consumers and Utility Maximization  
Chapter 5  
“Grandmothers and Granddaughters” by Esther Duflo (Reader)  
**Problem Set 1 Due**

Tues. Feb. 12 The Behavior of Firms and Profit Maximization  
Chapter 6

#### **IV. EFFICIENCY AND EQUILIBRIUM**

Thurs. Feb. 14 Welfare Analysis  
Chapter 7  
“The Misallocation of Housing Under Rent Control” by Edward Glaeser  
and Erzo Luttmer (Reader)  
**Hand out Problem Set 2**

Tues. Feb. 19 Competitive Firms in the Long Run  
Chapter 8 (pp. 217-232 and 238-240)

## **V. MARKET IMPERFECTIONS**

Thurs. Feb. 21 Monopoly  
Chapter 10 (pp. 283-299)  
**Problem Set 2 Due**

Tues. Feb. 26 Externalities  
Chapter 12 (pp. 347-359)

**Thurs. Feb. 28 FIRST MIDTERM EXAMINATION**

## **VI. INPUT MARKETS**

Tues. Mar. 4 Labor and Wages  
Chapter 14  
“The Impact of the Mariel Boatlift” by David Card (Reader)

Thurs. Mar. 6 Capital and Interest  
Chapter 8 (pp. 232-238) and Chapter 24 (pp. 675-682)  
**Hand out Problem Set 3**

## **VII. INTERNATIONAL TRADE**

Tues. Mar. 11 The Gains from International Trade  
Chapter 9 (pp. 245-254)

Thurs. Mar. 13 International Trade Policy  
Chapter 9 (pp. 254-268)  
**Problem Set 3 Due**

## **VIII. INTRODUCTION TO MACROECONOMICS**

Tues. Mar. 18 Macroeconomic Issues, Variables, and Framework  
Chapters 17, 18, and 19

## **IX. LONG-RUN MACROECONOMIC FUNDAMENTALS**

Thurs. Mar. 20 Technological Change and Economic Growth  
Chapter 20  
“Do Real-Output and Real-Wage Measures Capture Reality?” by William Nordhaus (Reader)

Tues.	Mar. 25	No Class, Spring Break
Thurs.	Mar. 27	No Class, Spring Break
Tues.	Apr. 1	Employment and Unemployment in the Long Run Chapter 21 <b>Hand out Problem Set 4</b>
Thurs.	Apr. 3	Savings and Investment in the Long Run Chapter 22 “Equipment Investment and Economic Growth” by J. Bradford DeLong and Lawrence Summers (Reader)

### **X. SHORT-RUN FLUCTUATIONS**

Tues.	Apr. 8	Planned Aggregate Expenditure and Output Chapters 25 and 26 <b>Problem Set 4 Due</b>
Thurs.	Apr. 10	Monetary Policy and Planned Aggregate Expenditure Chapter 27
<b>Tues.</b>	<b>Apr. 15</b>	<b>SECOND MIDTERM EXAMINATION</b>
Thurs.	Apr. 17	No Class

### **XI. LONG-RUN ADJUSTMENT**

Tues.	Apr. 22	Aggregate Demand and Inflation Chapter 28 (pp. 795-804)
Thurs.	Apr. 24	Inflation Adjustment and the Return to Potential Output Chapter 28 (pp. 804-812) and Chapter 29 (pp. 831-836) “Does Monetary Policy Matter?” by Christina Romer and David Romer (Reader)
Tues.	April 29	Applications of the Short-Run/Long-Run Model Chapter 28 (pp. 812-826) <b>Hand out Problem Set 5</b>

### **XII. INTERNATIONAL MACROECONOMICS**

Thurs.	May 1	Exchange Rates and the Balance of Payments Chapter 30 (pp. 863-876)
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Tues.	May 6	The Determinants of Net Exports Chapter 24 (pp. 682-692) <b>Problem Set 5 Due</b>
Thurs.	May 8	Review and Summary
<b>Tues.</b>	<b>May 20</b>	<b>FINAL EXAMINATION 5-8 P.M.</b>

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**SUPPLEMENTAL READINGS**

- Duflo, Esther. "Grandmothers and Granddaughters: Old-Age Pensions and Intrahousehold Allocation in South Africa." *World Bank Economic Review* 17(1) (2003): 1-25.
- Glaeser, Edward L., and Erzo F. P. Luttmer. "The Misallocation of Housing Under Rent Control." *American Economic Review* 93 (September 2003): 1027-1046.
- Card, David. "The Impact of the Mariel Boatlift on the Miami Labor Market." *Industrial and Labor Relations Review* 43 (January 1990): 245-257.
- Nordhaus, William D. "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, 1997, pp. 29-66.
- DeLong, J. Bradford, and Lawrence H. Summers. "Equipment Investment and Economic Growth." *Quarterly Journal of Economics* 106 (May 1991): 445-502.
- Romer, Christina D., and David H. Romer. "Does Monetary Policy Matter? A New Test in the Spirit of Friedman and Schwartz." *NBER Macroeconomics Annual* 4 (1989): 121-170.