

## School of Government

# MAPP 521 ECONOMICS (15 Points)

Trimester One 2008

## COURSE OUTLINE

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### Contact Details

**Course Coordinator:** **Dr Antong (Andres G) Victorio**  
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**Other Lecturers:** **Professor Viv Hall**  
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### Module Dates, Times and Locations

<b>Module One:</b>	Sessions 1-4	Wednesday 20 February 2008	8.30am – 6.00pm
<b>Module Two:</b>	Sessions 5-8	Wednesday 16 April 2008	8.30am – 6.00pm
<b>Module Three:</b>	Sessions 9-12	Wednesday 4 June 2008	8.30am – 6.00pm

**Locations:** Classes will be held on the Pipitea Campus of Victoria University and you will be advised of your classroom one week prior to each module by email.

## **Course Objectives and Content**

This course introduces analytical ideas in economics for understanding policy debates and analyzing public policy issues. The nature of economic incentives is introduced to assist in explaining how people go about making decisions. They are investigated in the context of how markets work, both at the level of individuals and firms (microeconomics) and at the level of an entire economy (macroeconomics). For microeconomics, the unifying framework for examining the role of government is the notion that markets may not always function properly. For macroeconomics, the emphasis will be upon the measurement and prediction of economic growth, unemployment, inflation, interest rates and exchange rates, and how these may themselves be influenced by government decisions, by how individuals form expectations and by how component structures interact with one another over time.

By the end of the course, it is expected that course participants will be able to:

- understand the perspectives and tools that economics brings to the study of public policy;
- identify what government can and cannot do to improve economic outcomes and how its intervention may affect economic activity;
- appreciate both the strengths and weaknesses of economics for analyzing problems.

## **Learning Commitment**

The learning objectives set for each course are demanding and, to achieve them, candidates must make a significant commitment in time and effort to reading, studying, thinking, and completion of assessment items outside of contact time. Courses vary in design but all require preparation and learning before the first module. Regular learning is necessary between modules (students who leave everything to the last moment rarely achieve at a high level). Expressed in input terms, the time commitment required usually translates to 65-95 hours (excluding class contact time) per course.

## **Readings**

For the microeconomics portion of the course, the assigned readings listed below will be sent as a packet. For the macroeconomics portion, three assigned readings are included in the readings packet and the following textbook is available for purchase from Vicbooks (ground floor, Rutherford House, on the Pipitea Campus or the Student Union Building, Gate 3, Kelburn Parade, on the Kelburn Campus):

- Mankiw, N Gregory, Debasis Bandyopadhyay and Paul Wooding (2006), *Principles of Macroeconomics in New Zealand*, Melbourne, Thomson Learning Australia. ISBN 10 0 17 013006 1 and/or ISBN 13 978 0 17 013006 6.

Purchases can be made in person or by mail order, telephone (04) 463 5515, fax (04) 471 2124, email [yuwtexts@vicbooks.co.nz](mailto:yuwtexts@vicbooks.co.nz) or online [www.vicbooks.co.nz](http://www.vicbooks.co.nz). Additional readings may be provided as the course progresses, to supplement the material in the assigned readings

and textbook. For preliminary or supplementary material in macroeconomics, the following are recommended:

- Callander, Andrew (2004), *Understanding the Economic Environment*, 2<sup>nd</sup> Ed, Wellington, LexisNexis NZ.
- Dalziel, Paul and Ralph Lattimore (2004), *The New Zealand Macroeconomy: Striving for Growth with Equity*, 5th Ed, Melbourne, Oxford University Press.

## **Course Structure and Reading List**

Each module, organized according to the topics below, will consist equally of microeconomic topics by Antong Victorio and macroeconomic topics by Viv Hall:

### **MODULE ONE (Wednesday 20 February 2008)**

**Session 1:** 8.30am – 10.30am (Hall) Macroeconomics: Conceptualising, measuring and monitoring the macroeconomy.

Applications: Is there a commonly agreed set of macroeconomic ideas and ways of reasoning? Three key principles underpinning any macroeconomy. Five ‘big-picture’ macroeconomic policy debates. The measurement of total production (GDP), the business cycle, national ‘economic well-being’, and inflation. Distinguishing nominal and real activity. NZ economic growth and inflation performance. Macroeconomic forecasting performance.

Pool, J.C. and R.M. La Roe, “What every manager needs to know about macroeconomics”, Chapter 1 in Pool and La Roe, *The instant economist*, Addison-Wesley, pp 3 – 29 (to be read prior to the session)  
*The Economist*, 10 April 1999, “Desperately seeking a perfect model”, pp 67 – 69 (to be read prior to the session)

Mankiw, Bandyopadhyay and Wooding (MBW): Chapters 1 (pp 11-13), 23, 10, 11

**Session 2:** 11.00am – 12.30pm (Hall) Macroeconomics: Production and employment in the long run.

Applications: Key determinants of long run real GDP growth. Productivity, and why it is an important influence on living standards. The extent to which public policy can influence long run growth and productivity. The factors that determine unemployment and its “natural rate”.

MBW: Chapters 12, 13, 15

**Session 3:** 1.30pm – 3.30pm (Victorio) Microeconomics: Supply and demand curves. The market equilibrium of prices and quantities. Changes in market equilibrium. The price elasticity of demand.

Applications: The demand for murder. The supply of check cashing. The effects of an excise tax versus those of a sales tax. The unintended consequences of rent control laws and of minimum wage laws. The hidden price of guilt.

Landsburg, S. (1995), “Supply, demand and equilibrium”, Chapter 1 in *Price Theory and Applications*: pp. 1-31, West Publishing Company.

Stiglitz, J. (1993), “Using demand and supply”, Chapter 5 in *Economics*: pp. 109-138, W.W. Norton and Company.

Levitt, S. and S. Dubner (2006), “What do schoolteachers and sumo wrestlers have in common?”, Chapter 1 in *Freakonomics*: pp. 15-19, Penguin Books.

**Session 4:** 4.00pm – 6.00pm (Victorio) Microeconomics: Income, prices and the consumer’s budget constraint. Utility as a measure of satisfaction. Indifference curves as quantity combinations with the same utility. Utility-maximization by consumers.

Applications: The elasticity of illegal drugs and some consequences of prohibition. Why do New Zealanders spend more on wine than they do on public transport? Which is better: subsidizing the cost of housing or just giving tenants the money?

Dolan, E. and J. Goodman (1995), “Illegal drugs: the unintended consequences of prohibition”, Chapter 5 in *Economics of Public Policy*: pp. 72-91, West Publishing Company.

Stiglitz, J. (1993), “The consumption decision”, Chapter 8 in *Economics*: pp. 198-213, W.W. Norton and Company.

Victorio, A. (2007), “Course notes in supply, demand, consumption and production”, pp. 1-8 of 13 pages, mimeo, version 1 November 2007 (read until the section on “Policy exercise: the utility of a cash subsidy versus that of a price subsidy”. Succeeding pages will be for the next module).

## **MODULE TWO** (Wednesday 16 April 2008)

**Session 5:** 8.30am – 10.30am (Hall) Macroeconomics: Money, the financial system, and inflation.

Applications: What is money, how is it determined, why is it important? The role of the banking system. The Reserve Bank of New Zealand, other central banks, and their monetary policy instruments.

MBW: Chapters 16, 21 (p 456)

**Session 6:** 11.00am – 12.30pm (Hall) Macroeconomics: Money, prices, and inflation over the long run and over shorter time horizons.

Applications: The relationship between money and inflation in the long run. The consequences of inflation. The transmission mechanisms through which monetary policy changes can influence inflation in New Zealand.

MBW: Chapter 17

Drew, Aaron and Rishab Sethi (2007), “The transmission mechanism of New Zealand monetary policy”, *Reserve Bank Bulletin*, June, 70(2), pp 5-19; available from [www.rbnz.govt.nz/research/bulletin](http://www.rbnz.govt.nz/research/bulletin)

**Session 7:** 1.30pm – 3.30pm (Victorio) Microeconomics: Production choices as cost-minimization. Production choices as profit-maximization. Consumer surplus, producer surplus and economic efficiency. The efficiency of perfect competition. The inefficiency of taxation and of price and quantity controls.

Applications: Universities as diploma mills. The social cost of robbery. Minimum wages as price floors. Rent control as price ceilings. The social value of water versus that of diamonds, and that of sports celebrities versus that of teachers. Rubbish collection services: what are they worth?

Victorio, A. (2007), “Course notes in supply, demand, consumption and production (continued)”, pp. 8-13 (starting from “The theory behind a supply curve”, mimeo, version 1 November 2007.

Landsburg, S. (1995), “Welfare economics and the gains from trade”, Chapter 8 in *Price Theory and Applications*: pp. 239-275, West Publishing Company.

Victorio, A. (1994), “Rubbish disposal: council v evaders”, column in *The Evening Post*, Wellington.

**Session 8:** 4.00pm – 6.00pm (Victorio) Microeconomics: The gains and losses from trade. The market demand curve facing that of a competitive firm versus that of a monopoly. The profit-maximizing equality of marginal revenue and marginal cost under a monopoly. The divergence of market price from marginal cost. The deadweight loss (inefficiency) of a monopoly. The desirable consequences of price discrimination.

Applications: Why New Zealand shouldn't import milk and export cars. Shopping-hour restrictions as monopoly power. Generic drugs and second-degree price-discrimination. Hotel discounts as third-degree price-discrimination.

Victorio, A. (2005), “Course notes on comparative advantage and international trade”, mimeo, version 16 May 2005.

Mankiw, N. (2004), “Firms in competitive markets”, Chapter 14 in *Principles of Economics, 3<sup>rd</sup> edition*: pp. 289-308, South-Western.

\_\_\_\_\_ (2004), “Monopoly”, Chapter 15 in *Principles of Economics, 3<sup>rd</sup> edition*: pp. 313-341, South-Western.

Victorio, A. (2004), "Imperfect competition", Chapter 4 in *Applied Models in Public Policy*, 2<sup>nd</sup> edition: pp. 30-41, Ateneo University.

### **MODULE THREE** (Wednesday 4 June 2008)

**Session 9:** 8.30am – 10.30am (Hall) Macroeconomics: The open economy.

Applications: What drives international trade, international capital flows, nominal and real exchange rates, and interest rate differentials? What is purchasing-power parity, and does it hold in practice?

MBW: Chapter 18

**Session 10:** 11.00am – 12.30pm (Hall) Macroeconomics: Booms, recessions and macroeconomic policy.

Applications: How the basic AD-AS model can be used to analyse the New Zealand business cycle. Identifying and analysing policy and non-policy demand-side and supply-side shocks to a macroeconomy. How fiscal policy and monetary policy can and cannot influence real GDP growth and inflation, in the short run and the long run. Short run and long run (Phillips-curve) relationships between inflation and unemployment.

MBW: Chapters 20, 21, 22

**Session 11:** 1.30pm – 3.30pm (Victorio) Microeconomics: Market failure as any inefficient outcome. Externalities as a source of market failure. The ideal of equating social marginal cost with marginal benefit. The Coase theorem as an alternative to government taxation. Altruism as an alternative to the Coase theorem. Non-rivalry and non-excludability as the sources of a market failure in public goods.

Applications: Environmental disasters as negative externalities. Noisy airports: Generic versus contextual interventions. Bargaining as an alternative to government intervention. The potentially-mitigating effects of altruism in gun ownership. The unintended consequences of legalizing abortion.

Stiglitz, J. (1993), "Externalities, merit goods, public decision-making", Chapter 23 in *Economics*: pp. 587-610, W.W. Norton and Company.

Victorio, A. (2004), "Economic externalities", Chapter 5 in *Applied Models in Public Policy*, 2<sup>nd</sup> edition: pp. 42-52, Ateneo University.

Levitt, S. and S. Dubner (2006), "Where have all the criminals gone?", Chapter 4 in *Freakonomics*: pp. 105-132, Penguin Books.

**Session 12:** 4.00pm – 6.00pm (Victorio) Microeconomics: Prisoners'-dilemma types of games. Dominant versus weakly-dominant strategies. The dominant-strategy equilibrium. The Nash equilibrium. Other equilibrium concepts in game theory.

Applications: Nuclear deterrence. Peace-keeping missions. Trade wars. George versus Saddam. Sumo quid pro quo.

Victorio, A. (2004), "Game-theoretic models", Chapter 15 in *Applied Models in Public Policy, 2<sup>nd</sup> edition*: pp. 150-162, Ateneo University.

\_\_\_\_\_, (2005), "Contemporary Economic Games", *Policy Quarterly* Vol. 1 No. 3, pp 16-22, Institute of Policy Studies, Victoria University of Wellington.

Levitt, S. and S. Dubner (2006), "What do schoolteachers and sumo wrestlers have in common?" (as previously assigned), Chapter 1 in *Freakonomics*: pp. 15-19, Penguin Books.

### **Assessment Requirements**

There are three pieces of assessment for the course, all "take-home" and totalling 100% of the course grade:

1. **Test/Essay**, 35% of course grade, due Wednesday 19 March 2008, four weeks after module one.
2. **Test/Essay**, 35% of course grade, due Wednesday 7 May 2008, three weeks after module two.
3. **Test/Essay**, 30% of course grade, due Monday 16 June 2008, twelve days after module three.

The three pieces of assessment will vary somewhat in format. Possibilities include multiple-choice testing, essay-writing, short answer-questions with or without calculations, quantitative case studies and questions from previously-assigned or additional readings.

**Please submit ALL assignments IN HARD COPY to:**

Francine McGee,  
School of Government,  
Victoria University of Wellington,  
Level 8 Reception,  
Rutherford House,  
23 Lambton Quay,  
P.O. Box 600,  
Wellington.

**Students should keep a copy of all submitted work.**

## **Penalties**

The ability to plan for and meet deadlines is a core competency of both advanced study and public management. Failure to meet deadlines disrupts course planning and is unfair on students who do submit their work on time. It is expected therefore that you will complete and hand in assignments by the due date. Marks may be deducted where assignments are submitted after the due date. For out of town students, two calendar days' grace is given to allow for time in the post.

If ill-health, family bereavement or other personal emergencies prevent you from meeting the deadline for submitting a piece of written work or from attending class to make a presentation, you can apply for and may be granted an extension to the due date. Note that this applies only to extreme unforeseen circumstances and is not necessarily awarded. You should let your Course Coordinator know as soon as possible in advance of the deadline if you are seeking an extension.

## **Mandatory Course Requirements**

To fulfil the mandatory course requirements for this course, you are required to:

1. Submit all assignments by the due date;
2. Attend all contact sessions of the course.

## **Communication of Additional Information**

Additional information may be provided in class, by post, by email or via Blackboard.

## **Withdrawal Dates**

Students giving notice of withdrawal from this course after **Monday 3 March 2008** will NOT receive a refund of fees.

Students giving notice of withdrawal from this course after **Friday 30 May 2008** are regarded as having failed the course, unless the Associate Dean subsequently gives approval to withdraw.

## **Faculty of Commerce and Administration Offices**

### **Railway West Wing (RWW) - FCA Student and Academic Services Office**

The Faculty's Student and Academic Services Office is located on the ground and first floors of the Railway West Wing. The ground floor counter is the first point of contact for general enquiries and FCA forms. Student Administration Advisers are available to discuss course status and give further advice about FCA qualifications. To check for opening hours, call the Student and Academic Services Office on (04) 463 5376.



### Easterfield (EA) - FCA/Education/Law Kelburn Office

The Kelburn Campus Office for the Faculties of Commerce and Administration, Education and Law is situated in the Easterfield Building on the ground floor (EA 005). This counter is the first point of contact for:

- Duty tutors for student contact and advice.
- Information concerning administrative and academic matters.
- Forms for FCA Student and Academic Services (e.g. application for academic transcripts, requests for degree audit, COP requests).
- Examinations-related information during the examination period.

To check for opening hours, call the Student and Academic Services Office on (04) 463 5376.

### **Notice of Turnitin Use**

Student work provided for assessment in this course may be checked for academic integrity by the electronic search engine [www.turnitin.com](http://www.turnitin.com). Turnitin is an on-line plagiarism prevention tool which identifies material that may have been copied from other sources, including the Internet, books, journals, periodicals or the work of other students. Turnitin is used to assist academic staff in detecting misreferencing, misquotation, and the inclusion of unattributed material, which may be forms of cheating or plagiarism. At the discretion of the School, handwritten work may be copy typed by the School and subject to checking by Turnitin. You are strongly advised to check with your tutor or the course coordinator if you are uncertain about how to use and cite material from other sources. Turnitin will retain a copy of submitted materials on behalf of the University for detection of future plagiarism, but access to the full text of submissions will not be made available to any other party.

### **General University Policies and Statutes**

Students should familiarise themselves with the University's policies and statutes, particularly the Assessment Statute, the Personal Courses of Study Statute, the Statute on Student Conduct and any statutes relating to the particular qualifications being studied. See the Victoria University Calendar or go to [www.victoria.ac.nz/home/about/policy/students.aspx](http://www.victoria.ac.nz/home/about/policy/students.aspx)

For information on the following topics, go to the Faculty's website [www.victoria.ac.nz/fca](http://www.victoria.ac.nz/fca), under Important Information for Students:

- Academic Grievances
- Student and Staff Conduct
- Meeting the Needs of Students with Impairments
- Student Support

## **Academic Integrity and Plagiarism**

Academic integrity is about honesty – put simply it means *no cheating*. All members of the University community are responsible for upholding academic integrity, which means staff and students are expected to behave honestly, fairly and with respect for others at all times.

Plagiarism is a form of cheating which undermines academic integrity. The University defines plagiarism as follows:

*The presentation of the work of another person or other persons as if it were one's own, whether intended or not. This includes published or unpublished work, material on the Internet and the work of other students or staff.*

It is still plagiarism even if you re-structure the material or present it in your own style or words.

*Note: It is however, perfectly acceptable to include the work of others as long as that is acknowledged by appropriate referencing.*

Plagiarism is prohibited at Victoria and is not worth the risk. Any enrolled student found guilty of plagiarism will be subject to disciplinary procedures under the Statute on Student Conduct and may be penalized severely. Consequences of being found guilty of plagiarism can include:

- an oral or written warning
- cancellation of your mark for an assessment or a fail grade for the course
- suspension from the course or the University.

Find out more about plagiarism, and how to avoid it, on the University's website:

[www.victoria.ac.nz/home/studying/plagiarism.html](http://www.victoria.ac.nz/home/studying/plagiarism.html)

## **Manaaki Pihipihinga Programme**

Manaaki Pihipihinga is an academic mentoring programme for undergraduate Māori and Pacific students in the Faculties of Commerce and Administration, and Humanities and Social Sciences. Sessions are held at the Kelburn and Pipitea Campuses in the Mentoring Rooms, 14 Kelburn Parade (back courtyard), Room 109D, and Room 210, Level 2, Railway West Wing. There is also a Pacific Support Coordinator who assists Pacific students by linking them to the services and support they need while studying at Victoria. Another feature of the programme is a support network for Postgraduate students with links to Postgraduate workshops and activities around Campus.

For further information, or to register with the programme, email [manaaki-pihipihinga-programme@vuw.ac.nz](mailto:manaaki-pihipihinga-programme@vuw.ac.nz) or telephone (04) 463 6015. To contact the Pacific Support Coordinator, email [pacific-support-coord@vuw.ac.nz](mailto:pacific-support-coord@vuw.ac.nz) or telephone (04) 463 5842.