

School of Government

MAPP 521
ECONOMICS
(15 Points)

Trimester 1 / 2009

COURSE OUTLINE

Names and Contact Details

Course Coordinator: **Dr Antong (Andres G) Victorio**
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School of Government Office Hours: 8.30am to 5.00pm, Monday to Friday

Trimester Dates

Monday 2 March to Wednesday 1 July 2009

Class Times and Room Numbers

Module One:	Sessions 1-4	Wednesday 25 February 2009	8.30am – 6.00pm
Module Two:	Sessions 5-8	Wednesday 22 April 2009	8.30am – 6.00pm
Module Three:	Sessions 9-12	Wednesday 10 June 2009	8.30am – 6.00pm

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

Withdrawal Dates

Students giving notice of withdrawal from this course after **Monday 9 March 2009** will NOT receive a refund of fees.

Students giving notice of withdrawal from this course after **Monday 1 June 2009** are regarded as having failed the course, unless the Associate Dean subsequently gives approval to withdraw.

Notice of withdrawal must be in writing / emailed to the Masters Administrator. Ceasing to attend or verbally advising a member of staff will NOT be accepted as a notice of withdrawal.

Course Learning Objectives and Course 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 well-being, unemployment, inflation, interest rates and exchange rates and how these may themselves be influenced by government decisions and people's expectations.

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.

Expected Workload

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.

Course Structure and Readings

The assigned readings listed below will be sent as a complete packet. Supplementary readings may be provided as the course progresses. Also, external speakers may be invited on occasion.

MODULE ONE Wednesday 25 February 2009

Session 1: 8.30am – 10.30am: 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 2: 11.00am – 12.30pm: 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: 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?

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. 1-10 of 14 pages, mimeo, version 19 February 2008. (Read until the section on “Policy exercise: the utility of a cash subsidy versus that of a price subsidy.”).

Session 3: 1.30pm – 3.30pm 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. (2008), "Course notes in supply, demand, consumption and production (continued)", pp. 10-14 (Starting from "The theory behind a supply curve", mimeo, version 19 February 2008.)

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 4: 4.00pm – 6.00pm: 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, 3rd edition*: pp. 289-308, South-Western.

_____, (2004), "Monopoly", Chapter 15 in *Principles of Economics, 3rd edition*: pp. 313-341, South-Western.

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

MODULE TWO Wednesday 22 April 2009

Session 5: 8.30am – 10.30am Microeconomics: Market failure as an 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, 2nd 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 6: 11.00am – 12.30pm: 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, 2nd 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.

Session 7: 1.30pm – 3.30pm: Macroeconomics: Macroeconomic variables and economic well-being:

Applications: Gross domestic product (GDP), unemployment, inflation and their measurement. The income versus the expenditure approach to measuring GDP. GDP as a measure of well-being. Incomes and expenditures in a circular-flow model of households, firms and government.

Wooding, Paul (1997), "Macroeconomic Issues", Chapter 1 in *Macroeconomics: A New Zealand Introduction, 2nd edition*: pp. 1-12, Sydney, Prentice-Hall.

_____, (1997), "Measuring Macroeconomic Variables", Chapter 2 in *Macroeconomics: A New Zealand Introduction, 2nd edition*: pp. 29-43, Sydney, Prentice-Hall.

Session 8: 4.00pm – 6.00pm: Macroeconomics: A model of expenditures and elementary fiscal policy.

Applications: The aggregate expenditure function and its components. Equilibrium GDP (income). Theories of the consumption function. The marginal propensity to consume. The determinants of investment. The multiplier effects on GDP (income) of changes in autonomous expenditure. The determinants of net exports.

Stiglitz, J. (1993), "Aggregate Demand", Chapter 28 in *Economics*: pp. 737-759, W.W. Norton and Company.

_____, (1993), "Consumption and Investment", Chapter 29 in *Economics*: pp. 766-787, W.W. Norton and Company.

_____, (1993), "Government Expenditures and Trade", Chapter 30 in *Economics*: pp. 798-805, 815-825, W.W. Norton and Company.

MODULE THREE Wednesday 10 June 2009

Session 9: 8.30am – 10.30am: Macroeconomics: The monetary system and monetary policy

Applications: Types of money in the measurement of money supply. How banks are able to create money from fractional reserve requirements. How the Reserve Bank can change the supply of money. How an increase in the supply of money may increase aggregate expenditure. The monetarist view of monetary policy: that the demand for money is interest-inelastic and proportionate to income.

Mankiw, N. Gregory, Debasis Bandyopadhyay and Paul Wooding, (2007), "The monetary system", Chapter 16 in *Principles of Macroeconomics in New Zealand*, pp. 314-333, Melbourne: Thomas learning.

Session 10: 11.00am – 12.30pm: Macroeconomics: The market for loanable funds and the market for foreign exchange.

Applications: The equilibrium rate of interest and quantity of loanable funds. The effect on this equilibrium of savings incentives, investment incentives and government spending. How the effect may change aggregate expenditure. The demand for net capital outflows as a component of the demand for loanable funds. The equilibrium exchange rate in the market for foreign currency exchange. The macroeconomic effects of government budget deficits, import quotas and capital flight.

Mankiw, N. Gregory, Debasis Bandyopadhyay and Paul Wooding, (2007), "Saving, investment and the financial system", Chapter 13 in *Principles of Macroeconomics in New Zealand*, pp. 250-269, Melbourne: Thomas Learning.

_____, (2007), "Open-economy macroeconomics: Basic concepts", Chapter 18 in *Principles of Macroeconomics in New Zealand*, pp. 364-378, Melbourne: Thomas Learning.

_____, (2007), "A Macroeconomic theory of the open economy", Chapter 19 in *Principles of Macroeconomics in New Zealand*, pp. 388-407, Melbourne: Thomas Learning.

Session 11: 1.30pm – 3.30pm: Macroeconomics: Aggregate demand and aggregate supply.

Applications: Deriving the aggregate demand curve from a change in prices. The aggregate supply curve. A fiscal-policy expansion as a rightward shift in aggregate demand. Wage reductions as a downward-shift in aggregate supply. Vertical (long-run) aggregate supply as a consequence of wages and prices increasing in the same proportion. Co-movements in macroeconomic variables. Corroborating the shifts in terms of NZ events.

Stiglitz, J. (1993), "Aggregate demand and supply", Chapter 31 in *Economics*: pp. 908-937, W.W. Norton and Company.

Mankiw, N. Gregory, Debasis Bandyopadhyay and Paul Wooding, (2007), "Aggregate demand and aggregate supply", Chapter 20 in *Principles of Macroeconomics in New Zealand*, pp. 412-414, 436-437, 440-441, Melbourne: Thomas Learning.

Session 12: 4.00pm – 6.00pm: Macroeconomics: Inflation versus unemployment.

Applications: Deriving the short-run Phillips curve from an equilibrium change in aggregate supply and demand. The natural rate of unemployment. Contractionary monetary policy and the Phillips curve. The role of inflationary expectations in shaping the long-run Phillips curve. The importance of Reserve-Bank credibility in fighting inflation.

Mankiw, N. Gregory, Debasis Bandyopadhyay and Paul Wooding, (2007), "The short-run trade-off between inflation and unemployment", Chapter 22 in *Principles of Macroeconomics in New Zealand*, pp. 473-495, Melbourne: Thomas Learning.

Assessment Requirements

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

1. **Test/Essay**, 50% of course grade, due Wednesday 6 May 2009, two weeks after Module One.
2. **Test/Essay**, 50% of course grade, due Wednesday 24 June 2009, two weeks after Module Three.

The two 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:

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

Assignments that are submitted in person should be placed in the secure box at School of Government reception (Level 8, Rutherford House) during office hours of 8.30am to 5.00pm,

Monday to Friday. The assignment box is cleared daily, and assignments will be date stamped.

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 dates;
2. Attend all modules/contact sessions of the course.

Communication of Additional Information

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

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.

Use of Turnitin

Student work provided for assessment in this course may be checked for academic integrity by the electronic search engine www.turnitin.com. Turnitin is an online 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 mis-referencing, misquotation, and the inclusion of unattributed material, which may be forms of cheating or plagiarism. *At the discretion of the Head of 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

For information on the following topics, go to the Faculty's website 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: including the work of others will not be considered plagiarism as long as the work is acknowledged by appropriate referencing.

Plagiarism is prohibited at Victoria University 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 penalised 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 at 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 University. 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 or telephone (04) 463 6015. To contact the Pacific Support Coordinator, email pacific-support-coord@vuw.ac.nz or telephone (04) 463 5842.