# **School of Government**

# MAPP 521 ECONOMICS (15 Points)

#### Trimester One / 2011

#### **COURSE OUTLINE**

#### **Names and Contact Details**

Course Coordinator: Dr Antong (Andres G) Victorio

Room RH 807, Level 8, Rutherford House, Pipitea Campus

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**Masters Administrator:** Darren Morgan

Room RH 821, Level 8, Rutherford House, Pipitea Campus

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Email: darren.morgan@vuw.ac.nz

**Office Hours:** 8.30am to 5.00pm, Monday to Friday

#### **Trimester Dates**

Wednesday 23 February to Monday 20 June 2011

#### Withdrawal from Course

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.

- 1. Your fees will be refunded if you withdraw from this course on or before **Friday 11 March 2011**.
- 2. The standard last date for withdrawal from this course is **Friday 13 May 2011**. After this date, students forced to withdraw by circumstances beyond their control must apply for

permission on an 'Application for Associate Dean's Permission to Withdraw Late' including supporting documentation. The application form is available from either of the Faculty's Student Customer Service Desks.

# **Class Times and Room Numbers**

<b>Module One:</b>	Sessions $1-4$	Wednesday 23 February 2011	8.30am - 6.00pm
<b>Module Two:</b>	Sessions $5 - 8$	Tuesday 19 April 2011	8.30am - 6.00pm
<b>Module Three:</b>	Sessions $9 - 12$	Wednesday 8 June 2011	8.30am - 6.00pm

#### Attendance is required at all three modular teaching days

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.

# **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.

# **Course Delivery**

This course is delivered in a modular format, which includes a minimum of 24 hours contact. The 24 hours are broken up into three separate days of eight hours each (a 'module'). There are three modules in the course with approximately five to six weeks between each module. **Attendance is required at all three modular teaching days (8.30am – 6.00pm).** 

#### **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 Reading List**

The assigned readings listed below will be sent as a complete packet. Supplementary readings may be provided as the course progresses. Time-permitting, lectures will be supplemented by in-class teaching videos of between 15 to 35 minutes each. These videos are listed with the readings below. External speakers may also be invited on occasion.

#### MODULE ONE Wednesday 23 February 2011

**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. Other types of elasticity.

Applications: The demand for murder. 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.

Victorio, A. (2009), "Notes on supply, demand and elasticity", mimeo.

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.

In-class videos: Taylor, T, "Supply and Demand, Chapters 3-5" and "Elasticity, Chapters 1-5", Lectures Three and Five respectively in *Economics*, 3<sup>rd</sup> *Edition*, The Teaching Company, Virginia, 2008.

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?

Victorio, A. (2009), "Course notes on consumer theory: Utility-maximization", mimeo.

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

Session 3: 1.30pm – 3.30pm Microeconomics: Production choices as cost-minimization or 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. (2009), "Notes on producer theory: Profit-maximization", mimeo.
\_\_\_\_\_\_ "Notes on consumer and producer surplus", mimeo.

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.

In-class video: Taylor, T, "Price Floors and Ceilings, Chapters 1-4" Lecture Four in *Economics*, 3<sup>rd</sup> Edition, in Economics, 3<sup>rd</sup> Edition, The Teaching Company, Virginia, 2008.

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. (2009), "Notes on international trade and economic efficiency", mimeo. 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.

In-class video: Taylor, T, "From Perfect Competition to Monopoly, Chapters 2-5" Lecture Nine in *Economics*, 3<sup>rd</sup> Edition, in *Economics*, 3<sup>rd</sup> Edition, The Teaching Company, Virginia, 2008.

#### MODULE TWO Tuesday 19 April 2011

Session 5: 8.30am – 10.30am 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.

Victorio, A. (2009), "Notes on externalities".

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.

In-class video: Taylor, T, "Negative Externalities, Chapters 1-6" Lecture Twelve in *Economics*, 3<sup>rd</sup> Edition, The Teaching Company, Virginia, 2008.

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. (2009), "Notes on game theory", mimeo.

\_\_\_\_\_. (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.

In-class video: Stevens, Scott, "Two By Two Classic Games, Chapters 3-6" Lecture Four in *Game Theory*, The Teaching Company, Virginia, 2008.

**Session 7:** 1.30pm – 3.30pm: Macroeconomics: Macroeconomic variables and economic wellbeing:

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*, 2<sup>nd</sup> edition: pp. 1-12, Sydney, Prentice-Hall.

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

In-class video: Taylor, T, "Macroeconomics and GDP, Chapters 2-6," Lecture Nineteen in *Economics*, 3<sup>rd</sup> Edition, The Teaching Company, Virginia, 2008.

**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.

pp. 798-805, 815-825, W.W. Norton and Company.

# MODULE THREE Wednesday 8 June 2011

**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.

Victorio, A. (2009), "Notes on money supply, demand and monetary policy", mimeo.

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.

Mankiw, N. (2004), "The influence of monetary and fiscal policy on aggregate demand", Chapter 34 in *Principles of Economics*, 3<sup>rd</sup> edition: pp. 756-764, South-Western.

**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.

Victorio, A. (2009), "Notes on Loanable Funds and the International Economy", mimeo.

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.
- In-class video: Taylor, T, "Budget Deficits and National Saving," Lecture Twenty Eight in *Economics*, 3<sup>rd</sup> Edition, The Teaching Company, Virginia, 2008.

## **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.

- Victorio, A. (2009), "Notes on aggregate demand and aggregate supply", mimeo.
- 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.
- Taylor, T, "Aggregate Supply and Aggregate Demand," Lecture Twenty-Four in *Economics*, 3<sup>rd</sup> Edition, The Teaching Company, Virginia, 2008.

#### **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.

- Victorio, A. (2009), "Notes on the Phillips Curve", mimeo.
- 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.
- In-class video: Taylor, T, "The Trade-off Between Inflation and Unemployment," Lecture Twenty-Five in *Economics*, 3<sup>rd</sup> Edition, The Teaching Company, Virginia, 2008.

# **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 on Monday 2 May 2011, shortly after Module Two.
- **2. Test/Essay**, 50% of course grade, due on **Monday 20 June 2011**, shortly after Module Three.

The two pieces of assessment may vary somewhat in format. Possibilities include essay-writing, basic graphing techniques with or without calculations, quantitative case studies, or questions from 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, Pipitea Campus) during office hours of 8.30am to 5.00pm, Monday to Friday. The assignment box is cleared daily, and assignments will be date stamped.

Your assessed work may also be used for quality assurance purposes, such as to assess the level of achievement of learning objectives as required for accreditation and audit purposes. The findings may be used to inform changes aimed at improving the quality of FCA programmes. All material used for such processes will be treated as confidential, and the outcome will not affect your grade for the course.

Students should keep a copy of all submitted work.

#### **Class Attendance**

#### The School expects you to attend all three modules for the course.

If, before enrolment for a course, you are aware that you will not be able to attend a module, you must notify the Director of Master's Programmes when you enrol explaining why you will not be able to attend. The Director of Master's Programmes will consult with the relevant course coordinator. In such circumstances, you may be declined entry into a course.

If you become aware after a course starts that you will be unable to attend a module or a significant part of a module (i.e. more than two hours in any given day), you must advise the course

coordinator before the module explaining why you will be unable to attend. The course coordinator may excuse you from attendance and may also require you to complete compensatory work relating to the course content covered during your absence.

## **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 will be deducted at the rate of five per cent for every day by which the assignment is late and no assignments will be accepted after five working days beyond the date they are due. For example, if you get 65% for an assignment, but you handed it in on Monday when it was due the previous Friday, you will get a mark of 50%.

If ill-health, family bereavement or other personal circumstances beyond your control 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. You should let your course coordinator know as soon as possible in advance of the deadline (if circumstances permit) if you are seeking an extension. Where an extension is sought, evidence, by way of a medical certificate or similar, may be required by the course coordinator.

# **Mandatory Course Requirements**

Submit or participate in all pieces of assessment required for this course.

# **Communication of Additional Information**

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

**Blackboard** is Victoria University's online environment that supports teaching and learning by making course information, materials and other learning activities available via the internet through the MyVictoria student web portal.

To access the Blackboard site for this course:

- 1. Open a web browser and go to <a href="www.myvictoria.ac.nz">www.myvictoria.ac.nz</a> .
- 2. Log into MyVictoria using your ITS Username (on your Confirmation of Study) and password (if you've never used the Victoria University computer facilities before, your initial password is your student ID number, on your Confirmation of Study, Fees Assessment or student ID card you may be asked to change it when you log in for the first time).
- 3. Once you've logged into MyVictoria, select Blackboard (from the options along the top of the page) to go to your Blackboard homepage.
- 4. The "My Courses" box displays the courses you have access to (please note that only courses that are actually using Blackboard will be displayed), so select "11.1.MAPP521: Economics" for the course-specific Blackboard site.

Information emailed to you via Blackboard can only be sent to your @myvuw.ac.nz email address (the free email address created for you when you enrol and accessed via the MyVictoria student web portal). If you want to receive these emails at your preferred email address (e.g. your home or work email address), it is **essential** that you activate your @myvuw.ac.nz email address before the start of the course and you modify the settings so all emails sent to it are automatically forwarded to your preferred email address. Please go to <a href="www.victoria.ac.nz/its/student-services/FAQs.aspx#Email Forward">www.victoria.ac.nz/its/student-services/FAQs.aspx#Email Forward</a> for more information.

You are recommended to ensure that your computer access to Victoria University's computer facilities, such as MyVictoria, Blackboard and email, is working BEFORE your course starts. If you have any problems, you should contact the ITS Helpdesk on (04) 463 5050 or <a href="mailto:its-service@vuw.ac.nz">its-service@vuw.ac.nz</a>, or visit the Helpdesk on level 2 of the Railway West Wing, Pipitea Campus. See <a href="https://www.victoria.ac.nz/its/student-services/">www.victoria.ac.nz/its/student-services/</a> for more information.

# Academic Integrity, Plagiarism, and the Use of Turnitin

Plagiarism is presenting someone else's work as if it were your own, whether you mean to or not.

'Someone else's work' means anything that is not your own idea. Even if it is presented in your own style, you must still acknowledge your sources fully and appropriately. This includes:

- material from books, journals or any other printed source
- the work of other students or staff
- information from the Internet
- software programs and other electronic material
- designs and ideas
- the organisation or structuring of any such material.

Acknowledgement is required for all material in any work submitted for assessment unless it is a 'fact' that is well-known in the context (such as "Wellington is the capital of New Zealand") or your own ideas in your own words. Everything else that derives from one of the sources above and ends up in your work – whether it is directly quoted, paraphrased, or put into a table or figure, needs to be acknowledged with a reference that is sufficient for your reader to locate the original source.

Plagiarism undermines academic integrity simply because it is a form of lying, stealing and mistreating others. Plagiarism involves stealing other people's intellectual property and lying about whose work it is. This is why plagiarism is prohibited at Victoria.

If you are found guilty of plagiarism, you may be penalised under the Statute on Student Conduct. You should be aware of your obligations under the Statute, which can be downloaded from the policy website (<a href="www.victoria.ac.nz/home/about/policy/students.aspx">www.victoria.ac.nz/home/about/policy/students.aspx</a>). You could fail your course or even be suspended from the University.

Plagiarism is easy to detect. The University has systems in place to identify it.

Student work provided for assessment in this course may be checked for academic integrity by the electronic search engine <a href="www.turnitin.com">www.turnitin.com</a>. Turnitin is an on-line plagiarism prevention tool which compares submitted work with a very large database of existing material. At the discretion of the Head of School, handwritten work may be copy-typed by the School and subject to checking

by Turnitin. 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.

There is guidance available to students on how to avoid plagiarism by way of sound study skills and the proper and consistent use of a recognised referencing system. This guidance may be found at the following website: <a href="https://www.victoria.ac.nz/home/study/plagiarism.aspx">www.victoria.ac.nz/home/study/plagiarism.aspx</a>.

If in doubt, seek the advice of your course coordinator.

Plagiarism is simply not worth the risk.

### For the following important information, follow the links provided

#### **Academic Integrity and Plagiarism**

www.victoria.ac.nz/home/study/plagiarism.aspx

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

- Find key dates, explanations of grades and other useful information at www.victoria.ac.nz/home/study
- Find out about academic progress and restricted enrolment at www.victoria.ac.nz/home/study/academic-progress.aspx
- The University's statutes and policies are available at <a href="www.victoria.ac.nz/home/about/policy">www.victoria.ac.nz/home/about/policy</a> except qualification statutes, which are available via the Calendar webpage at <a href="www.victoria.ac.nz/home/study/calendar.aspx">www.victoria.ac.nz/home/study/calendar.aspx</a> (see Section C)
- Further information about the University's academic processes can be found on the website
  of the Assistant Vice-Chancellor (Academic) at
   www.victoria.ac.nz/home/about\_victoria/avcacademic/default.aspx

# AVC (Academic) Website: information including: Conduct, Academic Grievances, Students with Impairments, Student Support

www.victoria.ac.nz/home/about\_victoria/avcacademic/Publications.aspx

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

www.victoria.ac.nz/fca/studenthelp/

#### Manaaki Pihipihinga Programme

www.victoria.ac.nz/st\_services/mentoring/