

**UNITED STATES NAVAL ACADEMY**  
Economics Department BASIC ECONOMICS Fall 2004

FE210 – Section 5041 (TR 10<sup>th</sup> period) in NI032

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Office hours: **MF 2<sup>nd</sup> and 3<sup>rd</sup> periods.** I teach TR 8<sup>th</sup>, 9<sup>th</sup>, and 10<sup>th</sup> periods. Please make an appointment for any other time.  
E-mail: [pschmitt@usna.edu](mailto:pschmitt@usna.edu) (the best way to reach me!)  
Web page: [www.usna.edu/Users/econ/pschmitt/FE210/FE210\\_04.html](http://www.usna.edu/Users/econ/pschmitt/FE210/FE210_04.html)

### **I. Course Description and Text**

The purpose of Principles of Economics is to familiarize students with both microeconomics and macroeconomics. Students should realize the economic decisions they make in their daily life and that they are economic decision makers. A student should understand the basic production and allocation problems that arise because of scarcity. A student should be able to examine how markets work to allocate scarce resources. A student should be able to understand when markets fail, the causes of market failure and possible ways to eliminate market failure. This course will then focus on macroeconomic issues, providing a framework to explain the behavior of the world economy. This course will provide insight to the determinants of production, unemployment, and inflation.

#### **Text**

*Introduction to Economics*, 2<sup>nd</sup> edition (be sure to be able to access the book, homework problems will come out of the text) by Marc Lieberman and Robert Hall

### **II. Grading**

There will be three midterm exams, daily quizzes, an application paper, and a comprehensive final exam.

#### **Midterm and Final Exam**

The exams will be scheduled for administration on the dates marked on this course syllabus. Each exam will cover designated chapters from the textbook and class notes. Questions may be drawn from topics mentioned in class, from the textbook, and from the class notes. The length and description of each exam will be announced in class, but a general description is also provided below.

Exams will include multiple choice problems, short answer essays, analytical problems, and longer essays. The partial-essay format requires the student to know the material *and* be able to synthesize it in a logical, coherent manner. The communication of ideas is nearly as important as the idea itself; for what good is knowledge that cannot be conveyed to others?

Some of the questions on the exams will require the use of a calculator. You may bring your calculator to each exam. The calculator should be able to compute higher mathematical functions, but **cannot be programmed** to contain economic definitions or formulas **or used in text mode**.

### Daily Quizzes

Daily multiple choice quizzes will be given. Each quiz will have two multiple choice questions. The material will either be from the previous day's notes or from the assigned reading. These will be given at the *beginning of class*. There are no make-up quizzes.

### Application Paper

There will be a 5 page application paper **due November 9<sup>th</sup>**. The topic will be discussed in further detail during the second week of class.

### Homework

Homework assignments are designed to highlight and test key concepts. Homework assignments will be handed out in class. Although students are encouraged to work in groups, every student is responsible for handing in their own assignment *in their own words*. Assignments must be turned ***in to me at the beginning*** of the class period in which they are due. There is no exception to this, I will not take late assignments. The answers to the homework assignments will be posted on the web immediately after class.

### Participation

The instructor's evaluation will be determined by class participation. Positive class participation includes, but is not limited by, contributing to discussion (daily preparation) and incorporating the textbook and any newsworthy materials. Negative class participation includes, but is not limited by, talking with your classmates during lecture (or any disruptive behavior) and sleeping during class.

Thus, grades will be based on homework sets, daily multiple choice quizzes, three midterm exams, an application paper, and a final exam (two parts – sectional and departmental).

<u>Graded Assignment</u>	<u>Points</u>
Homework	5%
Daily Quizzes	5%
Instructor Evaluation	5%
Midterm Exam I	15%
Midterm Exam II	15%
Midterm Exam III	15%
Application Papers	10%
<u>Final Exam (sectional and departmental)</u>	<u>30%</u>
Total	100%

The grading scale is as follows:

A	90% – 100%
B	80% – 89%
C	70% – 79%
D	60% – 69%
F	– 59%

There will be no other opportunities to earn points for this course other than the stated homework assignments, examinations and papers. The homework assignments, application papers, and examinations are the only means by which you can convey your understanding of the material in this course. No extra-credit will be offered.

### **Make-up Exams**

If you are committed to attend an event during a FE210 exam time, such as an athletic meet, musical performance, moving orders, or have watch in Bancroft Hall, then you must **arrange in advance (by e-mail at a minimum)** to take the exam *before* the scheduled exam date. If you are SIR, then you must arrange *in advance (by e-mail at a minimum)* to take the exam *after* the scheduled exam date.

Without notification prior to the exam, you will not be permitted to reschedule the exam.

Likewise, if you have an unexcused absence (as noted in MIDS) you will not be permitted to reschedule the exam.

Regardless, you will have **only two days after** the scheduled exam to take the exam or you will have to take a make up exam during the last week of classes.

### **Honor Code**

This course is taught under *The Honor Concept of the Brigade of Midshipmen*. Midshipmen of the United States Naval Academy agree to accept the responsibilities for honorable conduct in that "Midshipmen are persons of integrity: They stand for that which is right" in all academic activities.

Students must not give or receive aid on exams. This includes, but is not limited to, viewing the exams of others, sharing answers with others, and using books or notes while taking the exam. It also includes discussing the exam in order to help those who are taking it at a later time or date.

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## WEEKLY SCHEDULE – KNOW KEY IDEAS FOR EXAMS

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### **WEEK ONE:**

T 8/24

#### **INTRODUCTION: WHAT IS ECONOMICS?**

Discuss: *Textbook* Chapter 1.

Key Ideas: Economics, Scarcity, Microeconomics, Macroeconomics, Positive and Normative Economics, Eight Basic Principles of Economics.

Read: *Textbook* Chapters 1, 2, and 18 (pages 563 – 577).

R 8/26

#### **SCARCITY, CHOICE, AND ECONOMIC SYSTEMS; COMPARATIVE ADVANTAGE AND THE GAINS FROM TRADE:**

Discuss: *Textbook* Chapter 2 and 18 (pages 563 – 577).

Key Ideas: Opportunity Costs, Production Possibilities Frontier, Law of Increasing Opportunity Costs, Technical Efficiency, Specialization, Comparative and Absolute Advantage, Resource Allocation, Exchange, Exchange Rate, Terms of Trade.

Read: *Textbook* Chapter 2 and 18 (pages 563 – 577).

### **WEEK TWO:**

T 8/31

#### **SCARCITY, CHOICE, AND ECONOMIC SYSTEMS; COMPARATIVE ADVANTAGE AND THE GAINS FROM TRADE:**

Discuss: *Textbook* Chapter 2 and 18 (pages 563 – 577).

Key Ideas: Any remaining topics.

Read: *Textbook* Chapter 3 pages 54 – 67.

R 9/2

#### **SUPPLY AND DEMAND:**

Discuss: *Textbook* Chapter 3 pages 54 – 67.

Key Ideas: Market, Imperfect versus Perfect Competition, Quantity Demanded, Law of Demand, Determinants of the Demand Curve, Movements Along versus Shifts in Demand Curves, Substitutes, Complements, Inferior Goods, Normal Goods.

Read: *Textbook* Chapter 3 pages 67 – 99 (the Appendix Included).

### **WEEK THREE:**

T 9/7

#### **SUPPLY AND DEMAND:**

Discuss: *Textbook* Chapter 3 pages 67 – 99 (Appendix Included!).

Key Ideas: Quantity Supplied, Law of Supply, Determinants of the Supply Curve, Movements Along vs. Shifts in Supply Curve.

Read: *Textbook* Chapter 3 pages 67 – 99 (the Appendix Included).

R 9/9

#### **SUPPLY AND DEMAND:**

Discuss: *Textbook* Chapter 3 pages 67 – 99 (the Appendix Included).

Key Ideas: Market Equilibrium, Shortage, Surplus, Excess Demand, Excess Supply, Adjustments to Equilibrium, Price Ceilings, Price Floors, Price Elasticity of Demand, Total Expenditure.

Read: *Textbook* Chapter 3.

**WEEK FOUR:**

T 9/14      **SUPPLY AND DEMAND:**  
Discuss: *Textbook* Chapter 3.  
Key Ideas: Any remaining topics.  
Read: *Textbook* Chapter 4 (through page 119, not including the appendix).

R 9/16      **CONSUMER CHOICE:**  
Discuss: *Textbook* Chapter 4 (through page 119, not including the appendix).  
Key Ideas: Budget Constraint and Budget Line, Relative Price, Changes in the Budget Line, Utility, Marginal and Total Utility, Law of Diminishing Marginal Utility, Marginal Decision Making, Substitution Effect, Income Effect, Market Demand.  
Read: *Textbook* Chapter 5.

**WEEK FIVE:**

T 9/21      **CONSUMER CHOICE:**  
Discuss: *Textbook* Chapter 4 (through page 119, not including the appendix).  
Key Ideas: Any remaining topics.  
Read: *Textbook* Chapter 5.

T 9/23      **EXAM 1 (*Textbook chapters 1, 2, 3 and 4*).**  
Read: *Textbook* Chapter 5

**WEEK SIX:**

T 9/28      **PRODUCTION AND COST:**  
Discuss: *Textbook* Chapter 5.  
Key Ideas: Profit, Production Function, Long Run and Short Run, Total Product, Marginal Product of Labor, Law of Diminishing Marginal Returns, Sunk Costs, Explicit and Implicit Costs, Total Costs (TC), Total Fixed Costs (TFC), Total Variable Costs (TVC), Average Fixed Costs (AFC), Average Variable Costs (AVC), Average Total Costs (ATC), Marginal Costs (MC), Costs Curve Relationship.  
Read: *Textbook* Chapter 5.

R 9/30      **PRODUCTION AND COST:**  
Discuss: *Textbook* Chapter 5.  
Key Ideas: Long-Run Total Costs (LRTC), Long-Run Average Total Costs (LRATC), Economies of Scale, Constant Returns to Scale, Diseconomies of Scale.  
Read: *Textbook* Chapter 6.

**WEEK SEVEN:**

T 10/5      **PRODUCTION AND COST (FINISH), HOW FIRMS MAKE DECISIONS:  
PROFIT MAXIMIZATION:**  
Discuss: *Textbook* Chapter 6.  
Key Ideas: Accounting versus Economic Profit, Total Revenue, Profit-Maximizing Output Level, Marginal Revenue, Shutdown Rule.  
Read: *Textbook* Chapter 6.

R 10/7           **HOW FIRMS MAKE DECISIONS: PROFIT MAXIMIZATION:/**  
Discuss: *Textbook* Chapter 6.  
Key Ideas: Accounting versus Economic Profit, Total Revenue, Profit-Maximizing Output Level, Marginal Revenue, Shutdown Rule.  
Read: *Textbook* Chapter 7.

**WEEK EIGHT:**

T 10/12          **PERFECT COMPETITION**  
Discuss: *Textbook* Chapter 7.  
Key Ideas: Market Structure, Price Taker, Profit-Maximizing Level of Output, Firm's Short-Run Supply Curve, Market Supply Curve, Normal Profit.  
Read: *Textbook* Chapter 7.

R 10/14          **PERFECT COMPETITION**  
Discuss: *Textbook* Chapter 7.  
Key Ideas: Profit and Loss in the Long-Run.  
Read: *Textbook* Chapter 8 (pages 231 – 252).

**WEEK NINE:**

T 10/19          **MONOPOLY AND IMPERFECT COMPETITION**  
Discuss: *Textbook* Chapter 8 (pages 231 – 252).  
Key Ideas: Monopoly, Economies of Scale, Natural Monopoly, Price Setter, Profit Maximizing Output.  
Read: *Textbook* Chapter 9.

T 10/21          **THE LABOR MARKET AND WAGE RATES**  
Discuss: *Textbook* Chapter 9.  
Key Ideas: Compensating Wage Differentials, Perfectly Competitive Labor Market.  
Read: *Textbook* Chapter 10.

**WEEK TEN:**

T 10/26          **ECONOMIC EFFICIENCY AND THE ROLE OF GOVERNMENT:**  
Discuss: *Textbook* Chapter 10.  
Key Ideas: Pareto Improvement, Economic Efficiency, Market Failures, Externalities, Public Goods, Toll Goods, Common Property Resources.

R 10/28          **EXAM 2 (*Textbook chapters 5, 6, 7, 8, 9, and 10*)**  
Read: *Textbook* Chapter 11

**WEEK ELEVEN:**

T 11/2           **INTRODUCTION TO MACROECONOMICS:**  
Discuss: *Textbook* Chapter 11.  
Key Ideas: Expansion, Business Cycles, Recession, Depression, Aggregation.  
Read: *Textbook* Chapter 12.

R 11/4           **PRODUCTION, INCOME, AND EMPLOYMENT:**  
Discuss: *Textbook* Chapter 12.  
Key Ideas: Gross Domestic Product (GDP), Consumption, Net Investment Spending, Government Purchases, Transfer Payments, Net Exports, Real versus Nominal GDP, Unemployment, Frictional Unemployment, Seasonal Unemployment, Structural Unemployment, Cyclical Unemployment, Full Employment, Labor Force, Unemployment Rate, Discouraged Workers.  
Read: *Textbook* Chapter 13.

**WEEK TWELVE:**

T 11/9           **THE MONETARY SYSTEM, PRICES, AND INFLATION:**  
                  **\*\*PAPERS DUE\*\***  
Read: *Textbook* Chapter 13.  
Key Ideas: Functions of Money, Evolution of Money, Fiat Money, Price Level, Index, Consumer Price Index (CPI), Inflation Rate, Deflation, Costs of Inflation, Nominal versus Real Interest Rates.  
Read: *Textbook* Chapter 14.

R 11/11          **Vetern's Day – No class**  
Read: *Textbook* Chapter 14.

**WEEK THIRTEEN:**

T 11/16          **ECONOMIC GROWTH AND RISING LIVING STANDARDS:**  
Discuss: *Textbook* Chapter 14.  
Key Ideas: What makes economies grow?, Growth in Employment, Growth in Capital Stock, Loanable Funds Market, Budget Deficit, Supply of Funds, Investment Demand Curve, Equilibrium in the Loanable Funds Market, Capital Gains and Consumption Taxes.  
Read: *Textbook* Chapter 14.

R 11/18          **ECONOMIC GROWTH AND RISING LIVING STANDARDS:**  
Discuss: *Textbook* Chapter 14.  
Key Ideas: Any remaining topics.  
Read: *Textbook* Chapter 15 (including Appendix).

**WEEK FOURTEEN:**

T 11/23          **EXAM 3 (Textbook chapters 11, 12, 13, and 14)**  
Read: *Textbook* Chapter 15 (including Appendix).

R 11/25          **Thanksgiving – No class**  
Read: *Textbook* Chapter 15 (including Appendix).

**WEEK FIFTEEN:**

T 11/30

**ECONOMIC FLUCTUATIONS:**

Discuss: *Textbook* Chapter 15 (including Appendix).

Key Ideas: Potential Output, Economic Fluctuations, Boom, Recession, Disposable Income, Net Taxes, Consumption Function, Autonomous Consumption, Marginal Propensity to Consume, Equilibrium GDP, Spending Multiplier, Automatic Stabilizers, Fiscal Policy, Tax Multiplier.

Read: *Textbook* Chapter 16.

R 12/2

**THE BANKING SYSTEM, THE FEDERAL RESERVE, AND MONETARY POLICY:**

Discuss: *Textbook* Chapter 16.

Key Ideas: Demand Deposits, Required Reserves, Federal Open Market Committee, Discount Rate, Open Market Operations, Demand Deposit Multiplier, Money Market, Money Demand Curve, Money Supply Curve, Monetary Policy, Federal Funds Rate

Read: *Textbook* Chapter 17.

**WEEK SIXTEEN:**

T 12/7

**AGGREGATE DEMAND AND AGGREGATE SUPPLY**

Discuss: *Textbook* Chapter 17.

Key Ideas: Aggregate Demand Curve (AD), Movement Along versus Changes in Aggregate Demand, Aggregate Supply Curve (AS), Movement Along versus Changes in Aggregate Supply, Short Run versus Long Run Aggregate Supply (SRAS vs. LRAS), Demand Shocks and Supply Shocks.

Read: *Textbook* Chapter 17.

R 12/9

**AGGREGATE DEMAND AND AGGREGATE SUPPLY**

Discuss: *Textbook* Chapter 17.

Key Ideas: Any remaining topics.

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**EXAMS DECEMBER 11<sup>th</sup> through DECEMBER 17<sup>th</sup> (FINAL IS COMPREHENSIVE)**

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