

## U3 „Applied Economic Analysis“

### Syllabus

#### 1. General Information

Class	Thursday, 11 – 13
Venue	
Convener	Prof. Dr. Henrik Enderlein
Office	2.13
Telephone	259 219 130
E-Mail	<a href="mailto:enderlein@hertie-school.org">enderlein@hertie-school.org</a>
Office Hour	Monday, 12 – 14 hrs
Labs	A-1 - 6: Thursday, 14 – 20 h A-7 - 8: Friday, 9 – 11 h

Venue  
Tutor  
E-Mail

#### 2. Aim of the course

Most of you are unlikely to become professional economists. All of you, however, will have to interact with economists and to make choices on the basis of information provided by economists. Against this background, the goal of the two core classes in economics within the MPP is to provide you with:

- a thorough understanding of professional economists' way of thinking;
- a complete overview of the most important topics and approaches in micro and macro-economics;
- a passive knowledge of the most relevant models and concepts for the understanding of economic issues in public policy-making;
- a hands-on approach to the application of state of the art research in economics.

The two core classes, U3 and U4, use different approaches to reach this goal. In the first semester the course U3 “Applied Economic Analysis” will focus on the core topics of micro- and macroeconomics. Theories and models will have to be learned and understood. Applications will only be used as illustrations. In the second semester (U4 “States and Markets”) the starting point of teaching will be a concrete policy problem. Research and theoretical elements will be studied to come to concrete policy options.

### *3. Teaching*

There are three main elements:

- 1) Lectures in class will provide an overview of the different topics and provide some illustrations. However, since the class is rather small, you are all encouraged to raise questions and to contribute actively to discussions.
- 2) Depending on your background-knowledge in economics, the Lab will allow you to deepen your understanding or to do catch-up work.
- 3) There will be a course website on Blackboard with additional study material.

### *4. Requirements & Grading*

Class participation is mandatory. You are all required to prepare classes, to participate actively in class discussions, and to attend the Lab sessions. If you can prove that you have already covered the material of the class in previous courses, your mandatory participation in the lab can be waived. Please contact me by email to discuss this possibility.

There will be a mid-term exam (mainly on micro issues) and a final exam (mainly on macro issues):

- Mid-term Exam 50%
- Final Exam 50%

### *5. General Readings:*

The course will draw on two main textbooks: Pindyck & Rubinfeld (P&R) for the first part of the semester and Blanchard (BL) for the second part of the semester. If needed, photocopies of the relevant chapters will be provided. However, you may want to consider buying them. You will probably find used copies on the internet. There are some other good books that you may want to consult from time to time (take into account your personal preferences concerning style, exposure, level of math, etc.). They are standard books in micro- and macroeconomics and cover broadly the similar material.

### Main textbooks:

- Micro: Robert S. Pindyck & Daniel L. Rubinfeld: Microeconomics, 6th ed., Prentice Hall (a typical US textbook, extremely well presented, little math background required).
- Macro: Olivier Blanchard: Macroeconomics, 4rd ed., Prentice Hall (textbook style, extremely well presented)

### Further textbooks

- Micro & Macro: Nicholas G. Mankiw & Mark P. Taylor, Economics, London
- Micro: Hal R. Varian: Intermediate Microeconomics: A Modern Approach, 6th ed., W.W. Norton (more maths and equations)
- Micro: Robert H. Frank: Microeconomics and Behavior, McGraw Hill (somewhere in between the two above, adopts a perspective from behavioral economics)
- Macro: Michael S. Burda & Charles Wyplosz: Macroeconomics, A European Text, 4<sup>th</sup> ed., Oxford University Press (textbook style, extremely well presented).
- Frederic S. Mishkin: The Economics of Money, Banking, and financial Markets, 8<sup>th</sup> ed.

Additional readings will be provided in pdf format in Blackboard.

Moreover, you are strongly encouraged to subscribe to either the FT or the WSJ Europe. You may also want to have a look at the Economist every week.

### 6. Overview

<b>#1</b>	<b>10.09.2009</b>	<b>Introduction:</b> Reading: P&R ch. 1 <ol style="list-style-type: none"><li>1. Course Organization</li><li>2. Definition of economics and the role of economists</li></ol>
<b>#2</b>	<b>17.09.2009</b>	<b>Supply and Demand:</b> Reading: P&R ch. 2-4 <ol style="list-style-type: none"><li>1. What are supply and demand?</li><li>2. Market mechanism</li><li>3. Short-run and long run-elasticity</li><li>4. Utility function and indifference curves</li><li>5. Consumer choice and budget constraints</li><li>6. Income and substitution effects etc.</li></ol>

#3	24.09.2009	<b>Market Structure and Competition:</b> Reading: P&R ch. 8-9 <ol style="list-style-type: none"> <li>1. What are Perfectly Competitive Markets?</li> <li>2. Welfare Analysis (consumer and producer surplus)</li> <li>3. Price Control and Surplus Changes: What are the effects of government intervention?</li> <li>4. Market failures</li> <li>5. The impact of a tax or a subsidy</li> </ol>
#4	01.10.2009	<b>Markets and Prices:</b> Reading: P&R ch. 8-10 <ol style="list-style-type: none"> <li>1. Profit maximization of firms</li> <li>2. Marginal revenue, marginal cost and profit maximization</li> <li>3. Excursus: Costs a Opportunity Costs</li> <li>4. Competitive equilibrium</li> <li>5. Monopoly, profit maximization and social costs</li> <li>6. Price Discrimination, Examples</li> <li>7. Oligopoly, Monopsony and Oligopsony</li> </ol>
#5	08.10.2009	<b>Market failure and Government Intervention:</b> Reading: P&R ch. 17 <ol style="list-style-type: none"> <li>1. Asymmetric information and adverse selection (the market for lemons);</li> <li>2. Moral Hazard</li> <li>3. Market Signalling</li> <li>4. The Principal-Agent Problem</li> <li>5. Asymmetric Information in Labor Markets: Efficiency Wage Theory</li> </ol>
#6	15.10.2009	<b>Externalities and Public Goods:</b> Reading: P&R ch. 18 <ol style="list-style-type: none"> <li>1. Externalities</li> <li>2. Ways of Correcting Market Failure</li> <li>3. Emissions Trading and Clean Air</li> <li>4. Externalities and Property Rights</li> <li>5. Public Goods</li> <li>6. Common Property Resources, rivalrous and excludable Goods</li> </ol>

**++++MID-TERM EXAM++++**  
**Monday, 19.10.09, 9 – 11 hrs (Forum A + B)**

#7	22.10.2009	<p><b>Game Theory and Uncertainty: The Economics of Cooperation</b>  Reading: P&amp;R ch. 13</p> <ol style="list-style-type: none"> <li>1. Gaming and strategic decisions</li> <li>2. Dominant strategies and the Nash-Equilibrium</li> <li>3. Stackelberg Leader</li> <li>4. Repeated and sequential games</li> <li>5. Threats, Commitments, and credibility</li> <li>6. Entry deterrence</li> </ol>
#8	29.10.2009	<p><b>Goods Market, Money Market, role of Central Banks:</b>  Reading: BL ch. 1-4</p> <ol style="list-style-type: none"> <li>1. Measuring output – definitions</li> <li>2. Demand for goods</li> <li>3. Equilibrium in the goods market</li> <li>4. Meaning and functions of money</li> <li>5. Demand and supply</li> <li>6. Equilibrium in the money market</li> <li>7. Role of the Central Bank, Balance sheet, Open market operations, monetary injection</li> </ol>
#9	05.11.2009	<p><b>Macroeconomic equilibrium:</b>  Reading: BL ch. 5</p> <ol style="list-style-type: none"> <li>1. Business cycle and Long-term growth, Different approaches, general equilibrium</li> <li>2. IS curve, LM curve</li> <li>3. IS-LM model in a closed economy</li> <li>4. Effects of fiscal and monetary policy</li> </ol>
#10	12.11.2009	<p><b>Labour Market, Aggregate Demand and Supply:</b>  Reading: BL ch. 6-7</p> <ol style="list-style-type: none"> <li>1. Labor market, wage setting, natural rate of unemployment</li> <li>2. Aggregate Demand, Derivation of AD curve</li> <li>3. Aggregate Supply</li> <li>4. AS/AD model, General equilibrium</li> <li>5. Application: A monetary expansion</li> <li>6. Neutrality of money</li> </ol>

		7. Deficit Reduction, Output and the Interest Rate
#11	19.11.2009	<b>Government and Fiscal Policy</b> Reading: see Blackboard <ol style="list-style-type: none"> <li>1. Government functions</li> <li>2. Fiscal Policy: automatic rules versus discretionary interventions,</li> <li>3. The role of public debt</li> <li>4. Can the economy be in disequilibrium: Neoclassical and Keynesian answers</li> <li>5. The basic synthesis</li> </ol>
#12	26.11.2009	<b>Macroeconomic Growth: The Long Run</b> Reading: BL ch. 10-12 <ol style="list-style-type: none"> <li>1. Production and Growth, living standards, productivity</li> <li>2. Factors of production and Production Function; human capital, physical capital, natural resources and technological knowledge</li> <li>3. Post-Keynesian versus neoclassical growth models; Solow, Swan, Schumpeter, Romer and Lucas: What determines growth?</li> <li>4. Government policies for growth (invention, innovation and imitation)</li> </ol>
#13	03.12.2009	<b>The labour market</b> Reading: BL ch. Ch. 6,8-9 <ol style="list-style-type: none"> <li>1. Some basic notions; consumption-leisure trade-off ; Equilibrium in the labor market</li> <li>2. Dimensions of unemployment</li> <li>3. Wage rigidity, Employment and wages</li> <li>4. Labour market dynamics</li> <li>5. Equilibrium rate of unemployment, Long-term unemployment and benefit duration, Beveridge curves</li> <li>6. Labor market regulation incl. taxes</li> </ol>

**++++FINAL EXAM++++**  
**Thursday, 10.12.09, 11 – 13 hrs (Forum A+B)**