

INTERMEDIATE LEVEL ECONOMICS

OBJECTIVE:

The objective of this course is to equip the student with a sound understanding of the fundamental principles of microeconomics and macroeconomics, and be able to apply models and concepts.

The course is divided into two parts – microeconomics and macroeconomics.

CONTENTS:

A. Introduction to Economics

1. Why study economics? Economics as the study of scarcity and choice
2. Microeconomics and macroeconomics: difference, objectives and scope
3. The building blocks of economic analysis: assumptions; models; positive and normative analysis; graphs and curves; slope and elasticity; cause and effect
(Chapters 1 and 2 of Mankiw 2014.)

Microeconomics

B. Demand and Supply: How Markets Work and Welfare Aspects

1. Market forces of demand and supply: determinants of individual demand and supply; interaction of demand and supply: market equilibrium
2. Elasticity of demand and supply: concepts of elasticity of demand and supply, their determinants, calculations, and implications
3. Demand, supply and government policies: taxes, and price controls
4. Consumer surplus and producer surplus
5. Taxation: deadweight loss of taxation and its determinants; tax revenue
(Chapters 4, 5, 6, 7 and 8 of Mankiw 2014.)

C. Government Intervention in Markets

1. Externalities and market inefficiency: negative and positive externalities; private solutions to externalities; government intervention – regulations, taxes and subsidies, use of permits
2. Public goods: nature of public goods; the free rider problem; common resources
(Chapters 10 and 11 of Mankiw 2014.)

D. Firm Behaviour and the Organization of Industry

1. Costs of production: total cost, total revenue, and profit; opportunity costs; economic profit; production function and total cost curve; measures of costs (fixed, variable, average, marginal) and their relationships (including analysis of curves); short-run and long-run costs
2. Firms in competitive markets
3. Monopolistic competition
4. Oligopoly
5. Monopoly
(Chapters 13, 14, 15, 16 and 17 in Mankiw 2014.)

E. Markets for Production Factors

1. Demand for labour: production function; marginal product of labour
2. Labour market equilibrium: marginal productivity in equilibrium; labour demand and labour supply schedules
3. Land and capital
(Chapter 18 in Mankiw 2014.)

Macroeconomics

F. Measuring National Income and the Cost of Living

1. The measurement of Gross Domestic Product and Gross National Product; their components
2. Measuring the cost of living: real versus nominal measurements; accounting for inflation; the Consumer Price Index – its measurement and use; GDP deflator
(Chapters 23 and 24 in Mankiw 2014.)

G. The Real Economy in the Long Run, Saving and Investment, and Government Budgets

1. Economic growth and its determinants; production function
2. Importance of saving and investment; some important identities; market for loanable funds
3. Government budgets
(Chapters 25 and 26 in Mankiw 2014.)

H. The Monetary System

1. Money: what is money?; functions of money
2. The central bank: its functions and operations
3. Banks and the money supply process: fractional reserve banking; money creation through the banking system; money multiplier; tools of monetary control (reserve requirements; open market operations; discount rate etc.)
(Chapter 29 of Mankiw 2014.)

I. Inflation

1. Causes of inflation: money supply, money demand and equilibrium; price levels and value of money; money neutrality; quantity equation and velocity of money; Fisher effect
2. Costs of inflation
(Chapter 30 of Mankiw 2014.)

J. Unemployment

1. The measurement of unemployment; labour force participation; natural rate of unemployment
2. Types of unemployment
3. Causes of unemployment
(Chapter 28 in Mankiw 2014.)

K. International Trade

1. Advantages of trade
2. Absolute and comparative advantage
3. Arguments for restricting trade
(Chapters 3 and 9 of Mankiw 2014.)

L. Open Economy Macroeconomics

1. Introduction to balance of payments account
2. International flow of goods: imports and exports; trade balance
3. International flow of capital: net foreign investment
4. Relationship with saving and investment
5. Exchange rates: determination in market; real and nominal; exchange rate regimes – fixed and flexible
6. Equilibrium in the open economy
(Chapters 31 and 32 in Mankiw 2014.)

M. Aggregate Demand and Aggregate Supply

1. Business cycle/economic fluctuations: short-run and long-run
2. Aggregate demand curve
3. Relationship between aggregate demand and national income
4. Aggregate supply curve
5. Interaction of AD and AS curves
6. Causes of downturn/recession
7. Short-run trade-off between inflation and unemployment: Phillips curve; role of expectations and supply shocks
(Chapters 33 and 35 in Mankiw 2014.)

N. Impact of Monetary and Fiscal Policies on Aggregate Demand

1. Monetary policy: liquidity preference theory – money demand and money supply, money market equilibrium; changes in money supply; the central bank and interest rate
2. Fiscal policy: effects of government expenditure; multiplier effect; crowding-out phenomenon; impact of taxes
3. Stabilization policy: the case for and against; automatic stabilisers
4. Short-run and long-run economic outcomes
(Chapter 34 in Mankiw 2014.)

RECOMMENDED TEXT

1. N. Gregory Mankiw. **Principles of Economics** (7th edition) (2014), Cengage Learning.

(Note that earlier editions can also be used.)