



Course information 2011–12

EC1002 Introduction to economics

This course is designed to introduce you to the fundamentals of economic analysis and reasoning and it is the course upon which subsequent, more specialised economics courses are based.

Prerequisite

None apply.

Aims and objectives

The aims of this course are:

- To introduce students to an understanding of the domain of economics as a social theory.
- To introduce students to the main analytical tools which are used in economic analysis.
- To introduce students to the main conclusions derived from economic analysis and to develop students' understanding of their organisational and policy implications.
- To enable students to participate in debates on economic matters.

Assessment

This course is assessed by a three hour unseen written examination.

Note

The current subject guide for this course was revised and published by the Oxford University Press as follows: Witztum, A. *Economics*. (Oxford: Oxford University Press, 2005) [ISBN 9780199271634].

Learning outcomes

At the end of the course and having completed the essential reading and activities students should be able to:

- ✓ define the main concepts and describe the models and methods used in economic analysis
- ✓ formulate problems described in everyday language in the language of economic modelling
- ✓ apply and use the main economic models used in economic analysis to solve these problems
- ✓ assess the potential and limitations of the models and methods used in economic analysis

Essential reading

For full details please refer to the reading list.

Begg, D., S. Fischer and R. Dornbusch *Economics*. (McGraw Hill).

Or

Lipsey, R.G. and K.A. Chrystal *Economics*. (Oxford University Press).

Students should consult the *Programme Regulations for degrees and diplomas in Economics, Management, Finance and the Social Sciences* that are reviewed annually. The Prerequisites, Exclusions, and Syllabus are subject to confirmation in the *Regulations*. Notice is also given in the *Regulations* of any courses which are being phased out and students are advised to check course availability.

Syllabus

This is a description of the material to be examined, as published in the *Regulations*. On registration, students will receive a detailed subject guide which provides a framework for covering the topics in the syllabus and directions to the essential reading

Introduction

The Economic Problem; production possibility frontiers, specialisation and trade, comparative advantage.

Microeconomics

The Theory of Consumer Behaviour: rationality, revealed preferences and utility, indifference curves, utility maximisation, demand functions, substitution and income effects, substitutes and complements, demand elasticity.

The Theory of the Firm: technology and production functions, returns to scale, returns to factor of production, the law of diminishing marginal return, iso-quants and iso-cost, profit maximisation, cost functions, the distinction between the long and the short run, fixed and variable costs, behaviour of the firm in the long and in the short run, the firm's supply function.

Markets: demand and supply, equilibrium, competitive industry (the competitive firm, entry and exit, short-run and long-run equilibrium, some comparative statistics), monopoly (the firm, monopoly and competitive equilibrium compared, natural monopoly), monopolistic competition (the different nature of the market, the firm's behaviour, the role of entry).

Factors Market: demand and supply of labour (utility maximisation and the supply of labour, profit maximisation and the demand for labour), factors affecting labour market equilibrium (unions).

Coordination and Welfare: General equilibrium of a competitive economy, Pareto optimality, market failures, government interventions in a partial equilibrium context (indirect taxation, its inefficiency and the burden of taxation), the problems of social choice, consumer surplus and the welfare implications of the various market structures.

Macroeconomics

Aggregation: the problem of aggregation, value added and the $NNP=Y$ identity, depreciation, capital formation in a closed economy without a government.

The Closed Economy: national accounts of a closed economy, capital formation in a closed economy.

The Goods Market: consumption, investment, aggregate demand, income determination, equilibrium, the multiplier, consumption and taxation, the government budget, automatic stabilisers (the financing of government), aggregate demand and equilibrium (IS), the multiplier and taxation, the role of fiscal policy, alternative view of equilibrium-savings and investment, the paradox of thrift.

Money and Banking: the role of money, real balances, the quantity theory of money, the liquidity preference approach and the demand for money (liquid assets), commercial banks and the supply of money (banks and the various multipliers), central banks and monetary control, bonds and wealth, credit and wealth, equilibrium in the money market (LM).

General Equilibrium: the IS-LM model, monetary and fiscal policies in a closed economy.

The Open Economy: national accounts of the open economy, capital formation in an open economy, demand for exports and imports and their effect on aggregate demand, the net-export function, the multiplier of an open economy.

Exchange Rate Determination and the Money

Sector: the balance of payments, foreign currency market, the determinants of demand and supply of foreign currency, capital mobility, the rate of interest and the price of foreign currency, the difference in the impact on the system under different exchange rate regimes.

Income determination in an open economy under various exchange rate regimes and levels of capital mobility, the effects of fiscal and monetary policies under various exchange rate regimes and levels of capital mobility.

Prices, Inflation and Unemployment: deriving Aggregate Demand (AD) in the price output plane, the problems with deriving Aggregate Supply (AS), the Keynesian and the Classical AS, the problems with explaining stagflation.

The Phillips Curve and the theory of Inflation: the augmented Phillips Curve and the role of expectations in explaining stagflation, price levels and unemployment, the determinants of the short-run aggregate supply, the effects of an exogenous raw material price shock.