



Course information 2020-21

EC1002 Introduction to economics

General information

COURSE LEVEL: 4

CREDIT: 30

NOTIONAL STUDY TIME: 300 hours

Summary

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.

Conditions

Co-requisites: Students can only take *EC1002 Introduction to economics* at the same time as, or after, the following courses, not before:

- ST104A Statistics 1
- **AND** either MT105A Mathematics 1 **OR** MT1174 Calculus **OR** MT1186 Mathematical methods

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.

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 real world in the language of economic modelling
- apply and use the economic models to analyse these issues
- assess the potential and limitations of the models and methods used in economic analysis.

Please consult the current EMFSS Programme Regulations for further information on the availability of a course, where it can be placed on your programme's structure, and other important details.

Essential reading

For full details, please refer to the reading list.

Begg, D., G. Vernasca, S. Fischer and R. Dornbusch *Economics*. (London: McGraw Hill, 2014) 11th edition [ISBN 9780077154516].

Supplementary textbooks:

Lipsey, R.G. and K.A. Chrystal *Economics*. (Oxford: Oxford University Press, 2015) 13th edition [ISBN 9780198746577] international edition; [ISBN 9780199676835] UK edition.

Assessment

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

Syllabus

Introduction

The Economic Problem; production possibility frontiers, opportunity cost, the role of the market, positive and normative economics, theory and models in economics.

Microeconomics

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

The Theory of the Firm: technology and production functions, returns to scale, the law of diminishing marginal return, isoquants and isocost lines, cost functions, profit maximisation, 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 (differentiated products, the firm's behaviour, the role of entry), oligopoly (interdependence, game theory, reaction functions).

Factors Market: demand and supply of labour (utility maximisation and the supply of labour, profit maximisation and the demand for labour), monopsony, factors affecting labour market equilibrium (unions, immigration), returns to factors of production, economic rent, the income distribution, the Gini coefficient and Lorenz curves.

Coordination and Welfare: general equilibrium, horizontal and vertical equity, allocative and Pareto efficiency, market failures, externalities, Coase theorem, government interventions, public goods, incidence of a tax.

Macroeconomics

Aggregation: the problem of aggregation, value added and the $NNP=Y$ identity, depreciation, the circular flow of income, real and nominal GDP

The Goods Market: actual and potential output, 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),

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the multiplier and taxation, the role of fiscal policy, the paradox of thrift, imports and exports, the multiplier in an open economy.

Money and Banking: the role of money, real balances, 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, equilibrium in the money market (LM).

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

Prices, Inflation and the Phillips Curve: Keynesian and classical assumptions regarding wages and prices, aggregate supply in the long-run and the short-run, the effects of exogenous demand and supply shocks, inflation targeting, the Taylor rule, the quantity theory of money, the Phillips Curve in the long-run and the short-run, stagflation and the role of expectations, costs of inflation

Unemployment: types of unemployment, voluntary and involuntary unemployment, causes of unemployment, private and social costs, hysteresis

Exchange Rate Determination and the Money Sector: exchange rate regimes, the balance of payments, the foreign currency market, capital mobility, the rate of interest and the price of foreign currency, the effects of fiscal and monetary policies under fixed and floating exchange rates with and without capital mobility.

Economic Growth: growth in potential output, the steady state, technological progress, capital accumulation, convergence, endogenous growth, policies to promote growth

International Trade: absolute and comparative advantage, gains from trade, tariffs.

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