

Economics- Course Overview

Course Objectives

“The theory of economics does not furnish a body of settled conclusions immediately applicable to policy. It is a method rather than a doctrine, an apparatus of the mind, which helps its possessor to draw correct conclusion”

- John Maynard Keynes

Translation: Economics is a powerful way of looking at the world

- 1) Understand economic systems and institutions. In particular, how markets, prices, and governments influence economic decision making.**
- 2) Make informed financial and political decisions, as contributors to the economy**

Key Goal: To be financially literate and be able to read and understand the business section of the newspaper

Economics



Key Questions

(1) How do people & firms respond to incentives?

Example; **Would you do better in school if you were paid for getting good grades?**

Study: **Harvard economist named Roland Fryer used private money to pay 18,000 kids a total of \$6.3 million and conduct a randomized experiment.**

Results: **If incentives are designed wisely, it appears, payments can indeed boost students' performance.**

Topics



- (1) Parking and Traffic Tickets
- (2) Physician and Dentist Remuneration
- (3) CEO and Manager Compensation
- (4) Taxes on Demerit Goods
- (5) Student Incentives
- (6) IB Marking

Key Idea: An incentive is something that motivates an individual to perform an action. It is imperative that businesses and organizations properly align incentives to achieve the desired outcomes.

Unintended Consequences

In economics, **unintended consequences** are outcomes that are not the outcomes intended by a particular action. The unintended outcomes may be positive or negative.

The **law of unintended consequences** is the idea that an intervention in a complex system and the actions of people—especially by government—always have effects that are unanticipated or unintended. **This often occurs because incentives are misaligned.**

Translation: **We often do not know how an economic policy will work until the policy has been implemented.**

(People are **CRAZY** and sometimes act in very unpredictable, yet completely rational ways)

Inversely, sometimes individuals are **predictably irrational.**

Working on a Joint Project

In group projects individuals have a tendency to **shirk**, which means to avoid work or other responsibilities because of laziness and reliance on others to complete the task.

		Player 2	
		Work Hard	Goof off
Player 1	Work Hard	2, 2	0, 3
	Goof off	3, 0	1, 1

A 2x2 payoff matrix for a joint project game. The matrix is divided into four quadrants by a horizontal and vertical line. Each quadrant contains a pair of numbers representing the payoffs for Player 1 and Player 2. Red stars are placed in the top-right, bottom-right, and bottom-left quadrants. The top-left quadrant has a diagonal line from the top-left to the bottom-right.

Payoff Matrix:

		Player 2	
		Work Hard	Goof off
Player 1	Work Hard	2, 2	0, 3
	Goof off	3, 0	1, 1

The Cobra Effect

The **cobra effect** occurs when an attempted solution to a problem actually makes the problem worse. This is an instance of the law of unintended consequences.

Examples

- Problem:** During the British rule of colonial India the government became concerned about the number of venomous cobra snakes in Delhi.
- Policy:** The government offered a bounty for every dead cobra.
- Outcome:** Initially the strategy was successful. Eventually, however, enterprising persons began to breed cobras for the income. When the government became aware of this, the reward program was scrapped, causing the cobra breeders to set the now worthless snakes free. As a result, the wild cobra population further increased.

Problem: A similar incident occurred in Hanoi, Vietnam, which had a overpopulation of rats under French colonial rule.

Solution: The colonial regime created a bounty program that paid a reward for each rat killed. To obtain the bounty, people would provide the severed rat tail.

Outcome: Colonial officials, however, began noticing rats in Hanoi with no tails. The Vietnamese rat catchers would capture rats, lop off their tails, and then release them back into the sewers so that they could procreate and produce more rats, thereby increasing the rat catchers' revenue

Problem: Alcohol usage and the War on Drugs

Solution: Prohibition in the 1920s United States, was originally enacted to suppress the alcohol trade. Similarly, the War on Drugs, was intended to suppress the illegal drug trade.

Outcome: The alcohol trade, drove many small-time alcohol suppliers out of business and consolidated the hold of large-scale organized crime over the illegal alcohol industry. Similarly, the War on Drugs consolidates the profitability of drug cartels.

Problem: Opium and the expansion of poppy cultivation in Afghanistan

Solution: The U.S. implemented a policy that would essentially supplant U.S. cash for the fees paid up front by the Taliban to its contract farmers and encourage them to grow other crops.

The idea seemed to follow logically from the administration's policy of protecting Afghan civilians and eroding support for the insurgency.

Outcome: More farmers than ever started to grow opium poppies, in order to get the payments for switching. In 2013, Afghanistan's poppy farmers planted a record opium crop.

Problem: Traffic congestion and pollution in Mexico City and Bogota

Solution: The government's implemented a policy measure that tried to reduce traffic by allowing car owners only to drive their car a couple of days a week. This was checked using the final one or 2 license plate numbers.

Outcome: The result was that people who had to drive each day, started buying more than one car, and working couples even bought up to 4 cars in order to be able to drive each day. These were old cars, so the net effect was more congestion, more pollution.

Economics



Key Questions

(2) How do we allocate scarce resources?

Example; What is the best way to distribute vaccines given that there is not enough for everyone?

Key Idea: How to satisfy unlimited human wants with limited scarce resources.

Findings: People are greedy and pursue their own self interest. Businesses attempt to maximize profits

Topics



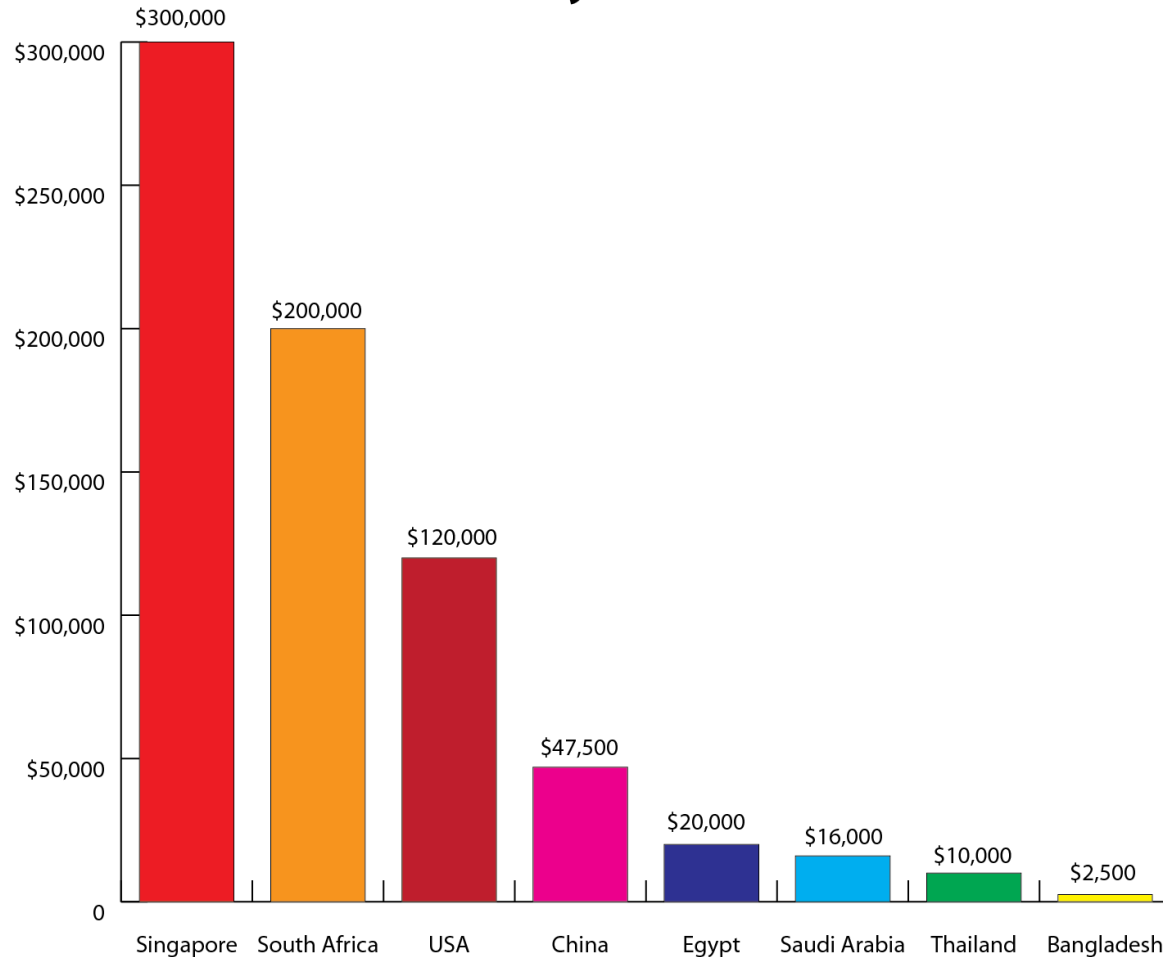
- (1) Pricing Decisions
- (2) Allocation of time
- (3) Government spending decisions
- (4) Healthcare decisions (procedures to offer)
- (5) Vaccines and organ transplants

Key Idea: Economics is the study of how scarce resources with alternative uses are allocated. Price is the main mechanism through which allocation takes place

Markets

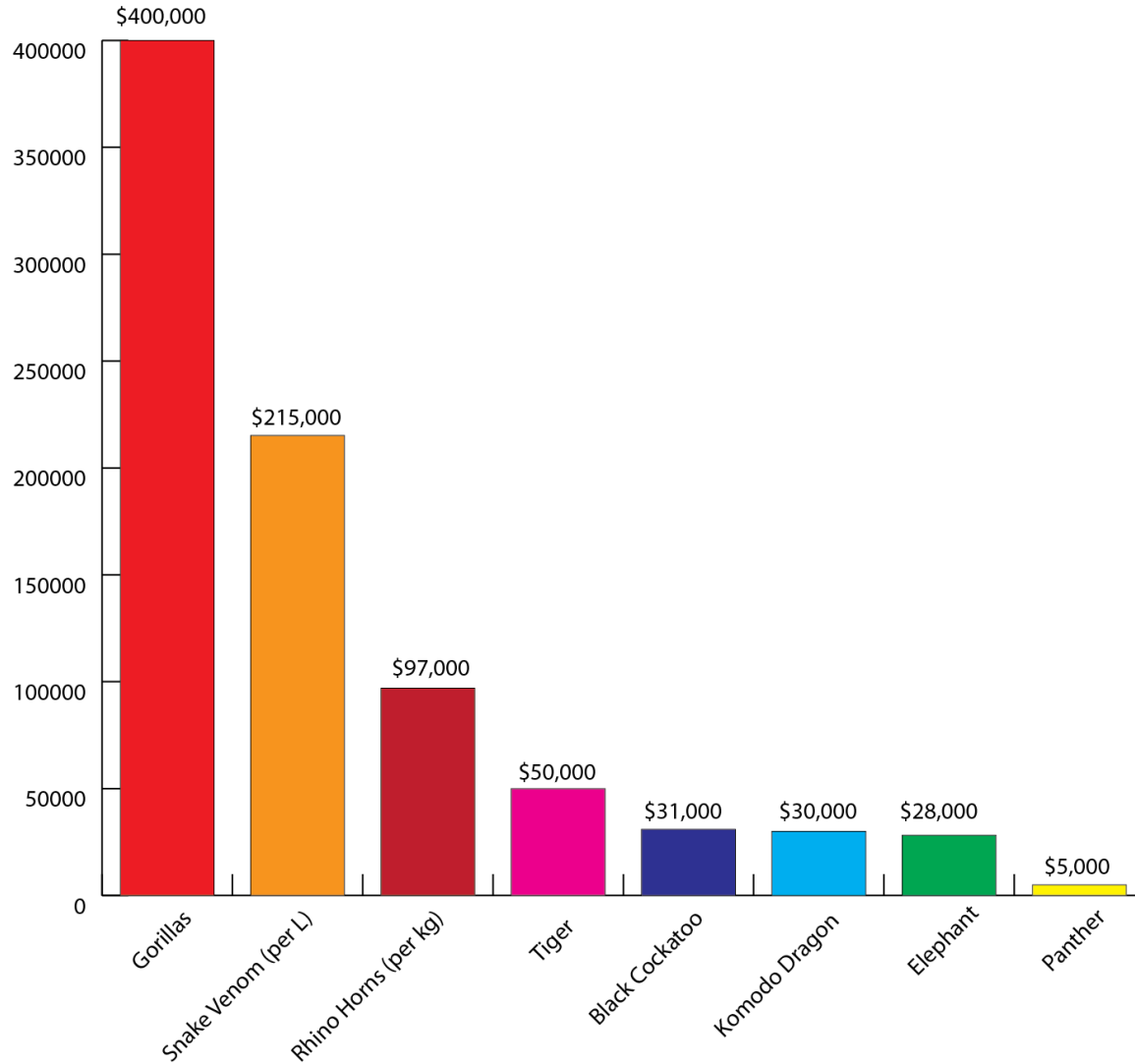
Where there is demand, there will always be supply. Markets exist for any scarce economic resource imaginable.

Kidney Prices (in \$USD)



Markets

Exotic Animal Prices (in \$USD)



Topics

Year 1

Unit 1: Microeconomics

Topics: Demand, Supply, Taxes, Subsidies, Externalities

Example: Studies have shown that the demand for tobacco tends to be highly price inelastic. Evaluate the view that governments can best reduce smoking by substantially increasing taxes on cigarettes.

Unit 2: Macroeconomics

Topics: Economic growth, Unemployment, Inflation, Poverty

Example: Poor people in less developed countries often derive little benefit from economic growth. Why might this be so?

Topics

Year 2

Unit 3: International Economics

Topics: Benefits of trade, Protectionism, Exchange rates

Example: Critically assess the arguments for and against the increased liberalisation of international trade.

Unit 4: Development Economics

Topics: Poverty, Indicators of development, Foreign aid

Example: The government of a less developed country decides to reduce the extent of income and wealth inequality. What methods could the government use to achieve its goal?.

HL Economics

External Assessment: 80%

Paper 1: 20% (75 minutes)
Format: Extended Response
Content: Micro/Macro/International/Development

Paper 2: 30% (105 minutes)
Format: Article Response
Content: Micro/Macro/International/Development

Paper 3: 30% (105 minutes)
Format: Quantitative & Policy Recommendation
Content: Micro/Macro/International/Development

Internal Assessment: 20%

Format: Commentary (3) involving analyzing current events from the newspaper.
Content: Micro/Macro/International/Development

SL Economics

External Assessment: 70%

Paper 1: 30% (75 minutes)
Format: Extended Response
Content: Micro/Macro/International/Development

Paper 2: 40% (105 minutes)
Format: Article Response
Content: Micro/Macro/International/Development

NO Math!!

Internal Assessment: 30%

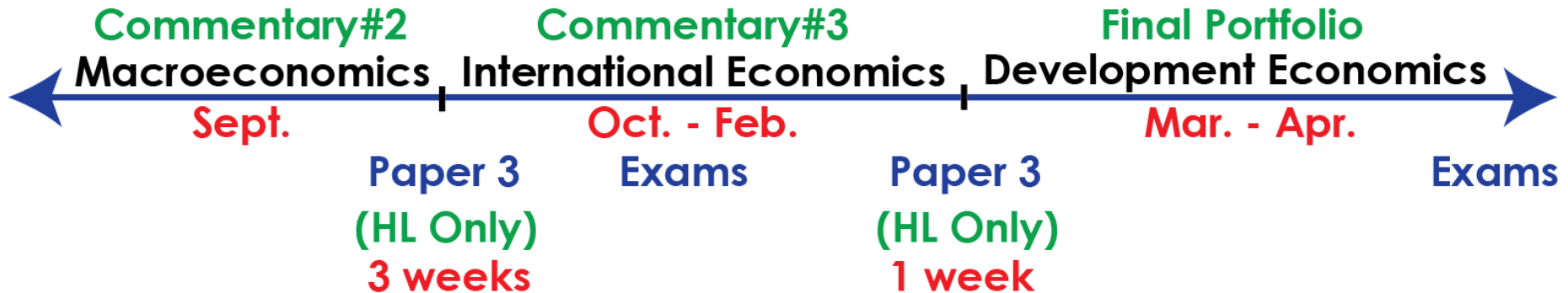
Format: Commentary (3) involving analyzing current events from the newspaper.
Content: Micro/Macro/International/Development

Timeline

Year 1



Year 2



Sample Questions

Example; Using at least one diagram, explain why governments may need to intervene to encourage participation in vaccination programs during a threatened influenza epidemic.

Example: Discuss economic policy options that a government could use to reduce the negative externalities that might arise from the increased use of cars.

Example; If a health scare causes a decrease in demand for beef of 25 000 kilos, determine the new equilibrium price and quantity.

Sample Assignments



- (1) **Stock-market challenge**
- (2) **Develop your own commercial advertisement**
- (3) **Analysis of economic issues in the media**
- (4) **Microfinance and alleviating poverty**
- (5) **Gangster Rap**

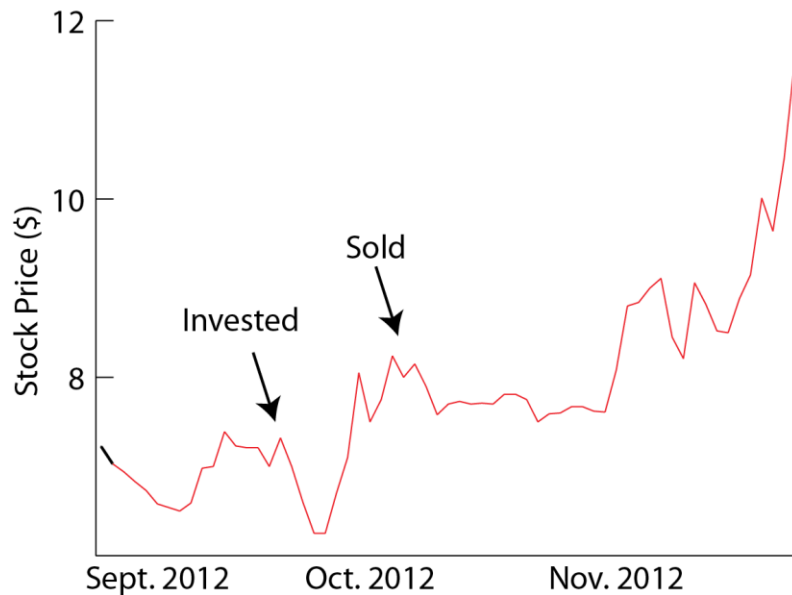
**“Growing up in the hood where the unemployment was high
Bunch of working class people just trying to get by
Working on the street corner 9 to 5
Barely getting paid, just trying to survive”**

Research in Motion (RIM)- Good

Stock Performance



Research In Motion (RIM)



Evaluation

- Reasons for Investing

- Emerging market dominance
- Undervalued stock
- Future release of BB10
- High Gross margin

- **Investment:** \$25,000 (4045 shares)

- **Bought:** \$6.18/share

- **Sold:** \$8.07/share

- **Capital Gain:** \$7,645

- **Current Price:** \$11.74/share

- **Potential Gain:** \$22,490

Connections



Psychology

Questions: What motivates human behaviour? Are people rational?



Business

Relevance: Marketing, Finance, Human Resources



Mathematics

Grade Conversions

	<u>IB Grade</u>	<u>Percentage</u>	
AWESOME! →	7	97 - 100%	“Excellent”
	6	93 - 96%	“Very Good”
Minimum Standard →	5	84 - 92%	“Good”
	4	72 - 83%	“Satisfactory”
	3	61 - 71%	“Mediocre”
Living in a Cave? →	2	50 - 60%	“Poor”

Canadian universities use your 'Top 6' courses to determine admission
University Admission Standards

Tips for Success

- (1) Read the assigned chapters in the textbook prior to class
- (2) Make point-form review notes in class
- (3) Use my economics notes to fill in any gaps
- (4) Memorize the diagrams & key definitions
- (5) Keep up to date & review regularly
- (6) Don't strive to be good... strive to be great!
- (7) Don't be a PANSY!
- (8) Join DECA

NO EXCUSES!

Ingredients for Success

“Every great dream begins with a dreamer. Always remember, you have within you the strength, the patience, and the passion to reach for the stars to change the world.”

- Harriet Tubman

Translation: Never stop dreaming & dream BIG!

- **The pursuit is more worthy and fulfilling than the end goal, so set high standards.**
- **Few people ever reach their true potential in academics or athletics**

Degree of Success = Ability + Work Ethic

- **Don't expect to be getting good results without putting in the work...**

“The difference between a successful person and others is not a lack of strength, not a lack of knowledge, but rather a lack of will.”

Questions?

**“If you had one shot, or one opportunity
To seize everything you ever wanted. one moment
Would you capture it or just let it slip?”**

About You & Goals

Please take the time to answer the following questions on a separate piece of paper,

- (1) Full name
- (2) List three interesting things about you
- (3) What would you like to study in university?
- (4) Where would you like to go to university?
- (5) What occupation would you like to pursue?
- (6) List two major goals for the next two years (not necessarily course specific)
- (7) Are you a fan of the 'Spice Girls'?