ECON 360-01 Principles of Microeconomics

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Economics 360 – Economics and Politics

Fall 2012
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Office: 329 Smith Hall.
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Williams College of Business Mission Statement

“We educate students of business, enabling them to improve organizations and society, consistent with the Jesuit tradition.”

Course Description

This course introduces students in economic analysis of political decision making processes in modern democracy. We will attempt to model and examine policy choices as the outcome of a strategic interaction among rational individuals. The topics will include but not limited to: rational choice theory, models of electoral competition, the role of institutions in policy making, general and special-interest politics and lobbying, and international policy coordination. The course will draw on a broad range of theoretical perspectives from positive political theory, public choice, and economics. Therefore, although there are no formal prerequisites for the course, some exposure to basic game theory or microeconomics would be helpful.

Goals

The goal of the course is to familiarize students in microeconomic analysis of political decision making processes in modern democracy. Students will study how policy decisions are made, what shapes incentives and constraints of policy makers taking those decision and how conflicts over policy are resolved. Primarily, throughout the course, students will be able to understand why policy is the way it is rather than what it ought to be.

Reading Materials: Articles and research papers on related topics; Power point slides; Posted lecture notes.

Homework Assignments: Weekly homework assignments will be given. Late assignment will NOT be accepted. All assignments are due at the BEGINNING of class.

Midterm Exam: There will be a midterm exam given in class during the semester. Midterm exam will count as 40% of your final semester grade. Make-up exams are given only under extraordinary circumstances. Exam questions will stress analysis including short essay questions and numerical problem solving. Any written answer that cannot be deciphered due to handwriting illegibility will be counted as a wrong answer. Exams will be based on the material covered in class. You may use a basic, non-programmable calculator on exams. Cell phones should be turned off and put away before any exam begins.
Final Exam: The final exam will be comprehensive, covering all of the course material for the whole semester. The final exam will count as 40% of your final semester grade. Again, exam questions will stress analysis including short essay questions and numerical problem solving.

Summary of Grading:

<table>
<thead>
<tr>
<th>Component</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Weekly Homework</td>
<td>20%</td>
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<tr>
<td>Midterm Exam (Oct 16)</td>
<td>40%</td>
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<tr>
<td>Final exam (Dec 11)</td>
<td>40%</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
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Integrity: I follow the policy outlined in the Xavier University Academic Integrity Policy and Procedures with regard to cheating and academic dishonesty.

Attendance and Class Participation: I believe class attendance and participation are closely linked with how well students learn and perform on exams. All students will be expected to participate fully in the discussion of materials. In other words, I expect you to be present in mind as well as body when you come to class. Students routinely will be called upon to provide definitions of terms, examples for theories under consideration, and theories for examples under discussion. If you have to leave class early, please let me know before the class. Do not just pack and leave in the middle of class.

Tentative Course Outline

**Topic 1:** How do we, as a rational decision makers, choose?
Rational Choice Theory: Optimum Allocation, Edgeworth box and Pareto efficiency. - **Week 1, 2** *(Aug 23, 28, 30)*
Readings: Lecture notes and Power Point slides.

**Topic 2:** Group Decision Making – **Week 3** *(Sept 4, 6)*

**Topic 3:** Distributive Politics and Cycling Majority, Agenda Power and Voting Rules:
Condorcet Paradox - **Week 4** *(Sept 11, 13)*

**Topic 4:** Arrow’s Impossibility Theorem – **Week 5** *(Sept 18, 20)*
   b. Arrow’s Impossibility Theorem by Alexander Tabarrok.

**Topic 5:** Median Voter Theorem – **Week 6, 7** *(Sept 25, 27, Oct 2, 4)*
   c. Game Theory – Nash Equilibrium.
**Topic 6:** Campaign Strategy 1: Voter Preference and Candidate Position – **Week 8, 9**  
(Oct 9, 16, 18, 23)  
Article Readings: a. A Model of Candidate Location When One Candidate Has a Valence Advantage by Groseclose.

**Midterm Exam: October 16, Tuesday**

**Topic 7:** Campaign Strategy 2: Campaign Rhetoric – **Week 10 and 11**  
(Oct 25, 30, Nov 1, 6)  
Article Readings: a. Going Negative by Ansolebehere and Iyengar.  
b. A Spatial Theory of Positive and Negative Campaigning by Herrington and Hess.  
c. Informative Positive and Negative Campaigning by Polborn and Yi.

**Topic 8:** Electoral Competition, Information Asymmetry and Voter Welfare – **Week 12, 13** (Nov 8, 13, 15, 20)  
Article Readings: a. Electoral Competition with Informed and Uninformed Voters by Baron.  
b. The Effect of Post-Election Asymmetry Information Possibility on Pre-Election Policy Platform Choices by Yi.  
c. Campaign Resource Allocation by Yi.

**Topic 9:** Lobbying, Campaign Contribution and Special Interest Politics– **Week 14**  
(Oct 27, Dec 4, 6)  
Article Readings: a. Electoral Competition and Special Interest Politics by Grossman and Helpman.  
b. Interest groups, campaign contributions, and probabilistic voting by Austin-Smith.  
c. Political competition with campaign contributions and informative advertising by Coate

**Final Exam: Tuesday, Dec 11 from 1 to 2:50 PM.**