Prof. Bryan Caplan
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Econon 103

Microeconomics Syllabus

Course Focus:
The course provides an introduction to modern microeconomics. It covers the fundamentals of economic theory, supply and demand, taxation, redistribution, markets for quality and information, competition and monopoly, labor markets and labor regulation, and externalities, and ends with controversial applications.

Prerequisites:
I assume that you are familiar with graphing and algebra.

Texts:

Most of the course material will consist in detailed notes that will be handed out in class. There will also be required readings in each of the following:

Tyler Cowen and Alex Tabarrok, *Modern Principles: Microeconomics*
Frederic Bastiat, *Economic Sophisms*
Frederic Bastiat, *Selected Essays on Political Economy*
Bryan Caplan, *Open Borders*
Bryan Caplan, *Build, Baby, Build*

Grading and Exams:

There will be two midterms and a final exam. Each midterm counts 25%; the final exam is 35%. These weights are fixed - improvement on later exams will not retroactively raise your grades on earlier exams. The remaining 15% of the grade is for class participation.

Homework:

There are six homework assignments listed here on the syllabus, and I encourage students to do them. But due to the prevalence of AI, homework will not be collected or graded.

Office Hours

The best way to contact me is by email at bcaplan@gmu.edu. Many questions and requests can be satisfied by going to my homepage at http://www.bcaplan.com. My office is in 11 Carow Hall; my office number is 3-2324. My official office hours are MTu --3:00-4:30, but you can also schedule an appointment or just drop by and see if I'm available.

Tentative Schedule:

My proposed schedule for the semester follows. If it proves too ambitious, I will try to *simply say less about each topic* rather than cut the topics for the final weeks.

PART I: Fundamentals of Economics

Week 1: The Economic Way of Thinking
- Economics as social science
- Economics versus Social Desirability Bias
- Economists' basic analytical framework: preferences and constraints
- The nature of preferences: human selfishness
- Intentions and results
- Exceptions to selfishness and Tullock's law
- Scarcity: the origin of constraints
- Scarcity and opportunity costs
- Opportunity costs and economic profit
- Scarcity and a brief history of progress
- Incentives: thinking strategically about your constraints
- Incentives and marginal analysis
- The principle of diminishing marginal utility
- Marginal analysis and the indifference principle

Readings:
Cowen and Tabarrok, chapter 1
Bastiat, *Economic Sophisms*, (First Series) chapters 1-3
Bastiat, *Selected Essays on Political Economy*, chapter 1: "What Is Seen and What Is Not Seen"

Recommended Problems: CT 1.9, 1.10, 1.11, 1.14, 1.17

Week 2: Trade and Property Rights
- Selfishness and cooperation
- Trade as mutual benefit
- Comparative advantage

- Exploitation fallacies: better-off versus well-off
- Paternalism and trade
- Trade and reciprocal altruism
- Trade as technology
- Property rights as a precondition of trade
- Property rights as incentives for production and maintenance
- Profit maximization: cost consciousness, consumer consciousness, risk consciousness
- The tragedy of the commons

Readings:
Cowen and Tabarrok, chapters 2, 7

Recommended Problems: CT 2.3, 2.5, 2.8, 2.14, 2.15, 7.2, 7.11, 7.13, 7.20

Week 3: Supply and Demand
- Markets and trade
- Observed markets and conceptualized markets
- Partitioning sellers and buyers: supply and demand
- Quantity, price, and the axes
- The law of demand
- The law of supply
- Market forces and equilibrium price
- Demand shifts
- Supply shifts
- Shifts versus movements along a curve
- Elasticity
- The inter-relatedness of markets
- The effect of price ceilings
- The effect of price floors
- Entry and exit

Readings:
Cowen and Tabarrok, chapters 3-5, 8

Recommended Problems: CT 3.19, 3.27, 3.34, 4.16, 4.25, 4.28, 4.30, 4.32, 5.3, 5.4, 8.3, 8.10, 8.19, 8.25, 8.38

Weeks 4-5: Taxation, Redistribution, and Cost-Benefit Analysis
- The concept of incidence
- Taxation analyzed from suppliers' viewpoint
- Taxation analyzed from demanders' viewpoint
- Transfers versus deadweight losses

- Deadweight losses and cost-benefit analysis
- The many margins of tax avoidance
- Example: luxury taxes
- Example: income taxation and the Laffer curve
- Redistribution and the equity-efficiency trade-off

Readings:
Cowen and Tabarrok, chapter 6

Recommended Problems: CT 6.2, 6.3, 6.9, 6.12, 6.19

Week 6: Quality and Information Economics
- Quality competition
- Quality regulation
- Prohibition
- Black markets and quality
- Probability
- Search theory
- Insurance, moral hazard, and adverse selection
- Signaling and education

Readings:
Cowen and Tabarrok, Chapter 24

Recommended Problems: CT 24.1, 24.2, 24.15, 24.19

Week 7: MIDTERM

PART II: Market Failure versus Government Failure

Week 8: Monopoly and Competition
- Government monopoly
- Variety and monopoly
- Economies of scale and monopoly
- Competition with few firms
- Collusion
- Predation
- Antitrust

Readings:
Cowen and Tabarrok, chapters 13, 15

Recommended Problems: CT 13.2, 13.6, 13.14, 13.15, 13.16, 15.1, 15.7, 15.9, 15.10

Week 9: Labor Markets and Labor Regulation

- Labor demand and marginal productivity
- Labor supply and the labor/leisure trade-off
- Shifts in labor demand and labor supply
- How labor market regulation works
- Competitive labor markets and discrimination
- Unions and licensing

Readings:
Cowen and Tabarrok, chapter 18
Recommended Problems: CT 18.1, 18.2, 18.8, 18.10, 18.12, 18.13, 18.15, 18.21

Week 10: Externalities I: Market Failure

- Return to the tragedy of the commons
- Negative externalities
- Positive externalities
- Correcting for negative externalities
- Correcting for positive externalities
- The logic of Pigovian taxes and subsidies

Readings:
Cowen and Tabarrok, chapters 10, 19

Recommended Problems: CT 10.5, 10.10, 10.13, 10.19, 18.1, 18.15, 18.18, 18.21

Week 11: Externalities II: Government Failure

- The reality of government policy
- The logic of decisiveness
- SDB and politics
- Action bias and politics
- Availability cascades
- The ubiquity of government failure

Readings:
Cowen and Tabarrok, chapter 20

Recommended Problems: CT 20.2, 20.8, 20.12, 20.15, 20.18, 20.21

Week 12: A Modest Proposal: By-Right Construction

- Housing regulation: the basic facts
- The effect of regulation on housing prices
- The Pigovian defense
- The Panacea policy
- Parking, traffic, schools, and pricing
- CBA versus voter self-interest?

Readings:
Caplan and Branzei, chapters 1-6

Recommended Problems:
https://econfaculty.gmu.edu/bcaplan/e309/hw4.pdf, Problems 1-5

Week 13: A Modest Proposal: Open Borders

- The optimal number of people
- Positive and negative externalities of population
- Immigration as trade
- Immigration and wealth creation
- CBA and the downsides of immigration
- Keyhole solutions

Readings:
Caplan and Weinersmith, chapters 1-6

Recommended Problems:
https://econfaculty.gmu.edu/bcaplan/e309/hw3.pdf, Problems 7-10

Week 14: FINAL EXAM