COURSE SYLLABUS, PART I

The following list gives reading assignments and concepts to understand\(^1\), with dates for exams. Sources for concepts to understand are the assigned readings plus any lecture notes that I distribute. Lecture notes will also be posted on the class web site. All test questions will be based on the concepts identified below for you to understand, plus any others explicitly identified in lecture notes.

O’Rourke’s book, *Eat the Rich*, describes the functioning of the economy and government in the US, Albania, Sweden, Cuba, Russia, Tanzania, Hong Kong, and China. We will discuss the overall message of the book in the last week; but about once a week starting in late September, we will have a brief discussion of one chapter, going through the book in sequence. Keep up with the reading.

Brief writing assignments will be made almost daily, to be completed in class. A final short (2 – 4 page, typed) paper will be due on the last day of class, giving a review of O’Rourke’s *Eat the Rich*.

I  GOVERNMENT IN THE ABSTRACT (9/4 TO 10/23)

A.  9/4 to  9/11  Background: Some basic concepts from economics

*Read:*  
9/6  Lerner, Ch. 1 – 3 (pp. 1 – 19).
9/11  Lerner, Ch. 4 – 5 (pp. 20 – 31).

*Understand:*  
• Opportunity cost
• Economic profits vs. accounting profits
• “genuine” price or market price
• “correct” price = marginal cost
• Efficient allocation of resources
• Principle of consumers’ sovereignty
• Efficiency of price system
• economy of information inherent in price system
• external effects
• market failures
• Pareto’s criterion
• Efficiency vs. equity

B.  9/13 to 9/18  Background: Some basic concepts from game theory

*Read:*  
9/13  Binmore, pp. 1 – 4
9/13  Hardin, pp. 21 – 25 (Game theory and the prisoner’s dilemma).
9/18  Thaler, Ch. 2, pp. 6 - 20

*Understand:*  
• Pure strategies
• mixed strategies
• Nash Equilibrium

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\(^1\)Understand:  Be able to explain and illustrate the concept, and be able to apply it in solving problems or in analyzing situations.
Cooperation games
- Prisoner’s dilemma
- Evidence on the theory’s predictive power

C. 9/20 to 10/2 Public choice and government as a solution

Read:
- 9/20 Hardin, pp. 1 – 3, 6 – 37.
- 9/20 O’Rourke, Ch. 1
- 9/25 McKenzie, ch. 1
- 9/27 O’Rourke, Ch. 2
- 10/2 Friedman, Ch. 2.

Understand:
- The issue of public choice when markets don’t work
- The issue of public choice in enforcing market rules
- Voluntary cooperation as prisoner’s dilemma
- Role of government as enforcer and as provider of goods
- How to judge government: Rules? Outcomes?

D I 10/4 to 10/9 Transfers, Market failures and government failures I

Read:
- 10/4 Anderson & Hill, Ch. 1, 2 (pp. 1 – 12)
- 10/4 O’Rourke, Ch. 3
- 10/4 Wolf, Ch. 1, 2 (pp. 1 – 29)
- 10/9 Wolf, Ch. 4 (pp. 57 - 92)
- 10/11 O’Rourke, Ch. 4

Understand:
- Transfers
- Resource cost of competing for transfers

10/16 Midterm quiz, 50 minutes (covers all material covered to 10/11, except for O’Rourke’s book)

D II 10/18 to 10/23 Transfers, Market failures and government failures II

Read:
- 10/18 O’Rourke, Ch. 5

Understand:
- Two distinguishing features of government as an economic entity, and consequences of those two features for choice of leadership and fiduciary responsibilities (employment constraints and equity constraints).
- 4 fallacies concerning the public and private sectors: that nationalized industries act in the public interest; that government is everywhere and always inefficient; fallacies regarding control and planning; and what Stiglitz calls “the Coase fallacy”.