Econ 110: Introduction to Economic Theory

1st Class   **1/21/11**

--index cards: name, phone# for emergency contact, email if not usual wes email (otherwise use standard email), econ background, math background

--hand out syllabus, book review sheet, discuss them both

      --bring up course webpage to show it

      --also: handout; extras are in the folder outside the econ office for a week or so; also available on the webpage, along with lecture notes, corrections, etc.

--after each class will go over my notes and will post on webpage along with any other material from current class (generally by end of day)

--discuss relationship to Econ 101; anyone who has questions about level/appropriateness of course for themself please see me; math level not really much harder than 101 (as in 101 isn't trivial either): graphs/geometry, algebra, calculus

--will introduce assistants in a later class; help sessions will start on Mon. Feb. 7 and Tues. Feb. 8 most likely as first problem set isn't due until Wed. Feb. 9

-- I'm always happy to answer questions on anything related to economics, no matter how tangential it may seem

--since there's no book, how do you learn? Look up any concepts I say in the class that you didn't understand sufficiently from the discussion or just to get another presentation of the concept, using either an online source or a textbook. Look up any tangential topic that comes to your mind following the lectures. Start reading about economics more generally. We'll practice translating news items into economics-eze

--the problem sets are key for understanding how economic analysis works. Economics is like a long series of word problems. Not my favorite thing in high school, but that's the way to do this type of analysis.

--how do you know I'm telling you the right things? Challenge me if you think it isn't right (i.e., bring in an alternative definition).

--introductory remarks on course

Remember: Nothing is going to be easy the first time you see it or try it yourself. If economic theory were easy to learn you wouldn't need to take this course. But by the end of the course economics should make more sense.

start on baseline concepts; spend first four lectures on these

What is theory?

What is economic theory?

descriptive vs. prescriptive/
normative vs. positive theory

efficiency vs. equity

two basic analytical/mathematical principles:
optimization and equilibrium

tension between words and math in formal analysis: math wins out in econ, but can't stand alone
--forces one to be precise – a good thing
--but some concepts are harder than others to translate into mathematical statements; doesn't
mean they aren't equally valid
--also some concepts are harder to express in "clean" math (give example of analytically
tractable vs. untractable functions)—natural tendency to prefer the more tractable cases;
sometimes ok to argue that the simplification to a tractable form doesn't lose the essence of the
argument, other times not ok
--tension between exact answers and close enough even in tractable cases (e.g., when is it ok to
round? when is it ok to be a dollar off or a million dollars off?)
hence economics is unavoidably a form of rhetoric as well

discuss relevance of models
--how close is close enough in terms of explanation and prediction (two goals of modeling)?
--like google maps in trying to find the appropriate level to answer the question at hand
approach in this course: we'll start with the big for the next three lectures, then shift down to
small, then build back up to big
big: the whole economy/society
small: individual person, individual firm, individual market, set of markets(economy),
interactions between economies/societies

we'll make specific assumptions about human psychology and about how firms operate in order to build our model of how the world works

a common criticism of economics/economic theory is that it oversimplifies things
but that misses the power of this approach
one reason to build a simple model is to underscore the way in which the real world departs from the simple model
and many models in economics are much more complex and actually do align more closely to the real world, but they are built on these same fundamental concepts of optimization and equilibrium (as well as their counters, nonoptimal behavior and disequilibrium)
we'll build simple models in this course, but that doesn't mean that these models are the end product of economics—you could study it for years more and not understand all of it
economics is a very active area of research with many new ideas and concepts being developed; that's what makes it an exciting area to work in