

## **INTERMEDIATE LEVEL ECONOMICS**

### **OBJECTIVE:**

The objective of this course is to equip the student with a sound understanding of the fundamental principles of microeconomics and macroeconomics, and be able to apply models and concepts.

The course is divided into two parts – microeconomics and macroeconomics.

### **CONTENTS:**

#### **(A) Introduction to Economics**

1. Why study economics? Economics as the study of scarcity and choice
  2. Microeconomics and macroeconomics: difference, objectives and scope
  3. The building blocks of economic analysis: assumptions; models; positive and normative analysis; graphs and curves; slope and elasticity; cause and effect
- (Chapters 1 and 2 of Mankiw 2024)

#### **Microeconomics**

#### **(B) Demand and Supply: How Markets Work and Welfare Aspects**

1. Market forces of demand and supply: determinants of individual demand and supply; interaction of demand and supply: market equilibrium
  2. Elasticity of demand and supply: concepts of elasticity of demand and supply, their determinants, calculations, and implications
  3. Demand, supply and government policies: taxes, and price controls
  4. Consumer surplus and producer surplus
  5. Taxation: deadweight loss of taxation and its determinants; tax revenue
- (Chapters 4, 5, 6, 7 and 8 of Mankiw 2024)

#### **(C) Government Intervention in Markets**

1. Externalities and market inefficiency: negative and positive externalities; private solutions to externalities; government intervention – regulations, taxes and subsidies, use of permits
  2. Public goods: nature of public goods; the free rider problem; common resources
- (Chapters 10 and 11 of Mankiw 2024)

#### **(D) Firm Behaviour and the Organization of Industry**

1. Costs of production: total cost, total revenue, and profit; opportunity costs; economic profit; production function and total cost curve; measures of costs (fixed, variable, average, marginal) and their relationships (including analysis of curves); short-run and long-run costs
  2. Firms in competitive markets
  3. Monopolistic competition
  4. Oligopoly
  5. Monopoly
- (Chapters 14, 15, 16, 17 and 18 in Mankiw 2024)

#### **(E) Markets for Production Factors**

1. Demand for labour: production function; marginal product of labour
  2. Labour market equilibrium: marginal productivity in equilibrium; labour demand and labour supply schedules
  3. Land and capital
- (Chapter 19 in Mankiw 2024)

## **Macroeconomics**

### **(F) Measuring National Income and the Cost of Living**

1. The measurement of Gross Domestic Product and Gross National Product; their components
2. Measuring the cost of living: real versus nominal measurements; accounting for inflation; the Consumer Price Index – its measurement and use; GDP deflator

(Chapters 24 and 25 in Mankiw 2024)

### **(G) The Real Economy in the Long Run, Saving and Investment, and Government Budgets**

1. Economic growth and its determinants; production function
2. Importance of saving and investment; some important identities; market for loanable funds
3. Government budgets

(Chapters 26 and 27 in Mankiw 2024)

### **(H) The Monetary System**

1. Money: what is money?; functions of money
2. The central bank: its functions and operations
3. Banks and the money supply process: fractional reserve banking; money creation through the banking system; money multiplier; tools of monetary control (reserve requirements; open market operations; discount rate etc.)

(Chapter 30 of Mankiw 2024)

### **(I) Inflation**

1. Causes of inflation: money supply, money demand and equilibrium; price levels and value of money; money neutrality; quantity equation and velocity of money; Fisher effect
2. Costs of inflation

(Chapter 31 of Mankiw 2024)

### **(J) Unemployment**

1. The measurement of unemployment; labour force participation; natural rate of unemployment
2. Types of unemployment
3. Causes of unemployment

(Chapter 29 in Mankiw 2024)

### **(K) International Trade**

1. Advantages of trade
2. Absolute and comparative advantage
3. Arguments for restricting trade

(Chapters 3 and 9 of Mankiw 2024)

### **(L) Open Economy Macroeconomics**

1. Introduction to balance of payments account
2. International flow of goods: imports and exports; trade balance
3. International flow of capital: net foreign investment
4. Relationship with saving and investment
5. Exchange rates: determination in market; real and nominal; exchange rate regimes – fixed and flexible
6. Equilibrium in the open economy

(Chapters 32 and 33 in Mankiw 2024)

**(M) Aggregate Demand and Aggregate Supply**

1. Business cycle/economic fluctuations: short-run and long-run
2. Aggregate demand curve
3. Relationship between aggregate demand and national income
4. Aggregate supply curve
5. Interaction of AD and AS curves
6. Causes of downturn/recession
7. Short-run trade-off between inflation and unemployment: Phillips curve; role of expectations and supply shocks

(Chapters 34 and 36 in Mankiw 2024)

**(N) Impact of Monetary and Fiscal Policies on Aggregate Demand**

1. Monetary policy: liquidity preference theory – money demand and money supply, money market equilibrium; changes in money supply; the central bank and interest rate
2. Fiscal policy: effects of government expenditure; multiplier effect; crowding-out phenomenon; impact of taxes
3. Stabilization policy: the case for and against; automatic stabilisers
4. Short-run and long-run economic outcomes

(Chapter 35 in Mankiw 2024)

**READING LIST – ECONOMICS**

N. Gregory Mankiw. **Principles of Economics** (10th edition) (2024), Cengage Learning; ISBN-13: 9780357722718.

**(Note that earlier editions can also be used.)**