Introduction to Economic Reasoning

This course offers an entry point into the conversation that economists have with one another, with policy makers, and with the educated public. Much of economic reasoning is based on the application of abstract concepts to quantitative information; the reason for that distinctive style comes from the abstract and quantitative character of the subject matter. The over-riding goal of the course is therefore to learn to reason economically by learning to reason about the concrete subject matter of economics. We do that by reading and analyzing a range of examples of economic reasoning about specific subject matter.

Format: Lecture and discussion. Each week is built around a single example of economic reasoning which we will examine in detail. Typically Monday will be a lecture, with the purpose of providing the background and orientation you need in order to appreciate the reading. Wednesday will be discussion about the example of economic reasoning as a way of learning how to reason economically yourself. Assignments are written. We learn a new language by trying to speak it and write it, and by getting feedback from expert speakers.

Grading: Problem sets (2 of 3, in Weeks 1-6) 20%
          Midterm, 20%
          Response papers (2 of 3, in Weeks 8-13), 40%
          Final, 20%

Prerequisites: None.

Teaching Assistant: Anush Kapadia

Readings: Most of the readings will be available on Courseworks; Chang and Phillips are available for purchase, since we will be reading multiple chapters. All readings are real examples of economic reasoning, not watered-down textbook writing, so they are challenging. That is on purpose. We learn to speak a new language by listening and talking with expert speakers, and not giving up when we don’t understand what they are saying. It will be helpful to read the assigned material before lecture, after lecture, and then again in review.

Problem Sets: Choose two
                  Dunbar
                  Copeland
                  Piketty and Saez

Response Papers: Choose two
                  Keynes-Marschak-Sproul
                  Ferguson
                  Chang

Final Exam:   Brookings v. Smith, or Brookings v. Phillips, your choice
Course Schedule:

Jan 20: Introduction

BASICS
  Understanding charts and graphs, history and institutions
Week 2: What is a bank? Dunbar, Chapters, Ch 1-3
  Assets and liabilities, solvency and liquidity, balance sheet thinking
Week 3: Everyone is a bank! Copeland, Moneyflows, Ch. 1-3, 7
  Sources and uses, financial and non-financial sectors,
  public and international sectors, income and expenditure

HOUSEHOLD
Week 4: Household balance sheet Piketty and Saez, “Top Incomes”
  Consumer Survey, Distribution of wealth
Week 5: Pensions and Social Security Aaron, “US Pension System”
  Human capital, state as financial intermediary
Week 6: Mortgage finance Shiller, Subprime Solution, Ch. 1-3
  History, institutions, term structure of interest rates
Week 7: Review and Midterm

Spring Break

STATE
Week 8: State, war finance. Keynes, “How to Pay for the War”
  National Income Accounting, Fiscal Policy Marschak, “Peace Economics”
Week 9: State, central banking. Sproul, “The Accord”
  Central bank balance sheet, Monetary Policy
Week 10: Financial Globalization Ferguson, Ascent of Money, Ch. 6
  Chimerica, UIP and the carry trade
Week 11: Economic Development Ha-joon Chang, Bad Samaritans, 1-3, 7
  Lewis model

CRITICAL PERSPECTIVES
Week 12: Culture of Finance Yves Smith, Econned, Ch. 9
Week 13: Political Economy of Finance Kevin Phillips, Bad Money, 1-4, 7

May 3: Final Meeting