

## 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

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

### HOUSEHOLD

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

Spring Break

### STATE

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

### 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