UNIVERSITY OF LONDON

Course information 2023-24
EC1002 Introduction to economics

This course is designed to introduce you to the fundamentals of economic analysis and reasoning, and it is the course upon which subsequent, more specialised economics courses are based.

Co-requisite

Students can only take EC1002 Introduction to economics at the same time as

- ST104A Statistics 1 (half course) **OR** ST1215 Introduction to Mathematical Statistics† **AND**
- MT105A Mathematics 1 (half course) **OR** MT1174 Calculus **OR** MT1186 Mathematical methods†

Aims and objectives

The aims of this course are:

- To introduce students to an understanding of the domain of economics as a social science
- To introduce students to the main analytical tools and reasoning used in economic analysis.
- To introduce students to the main conclusions derived from economic analysis and to develop students' understanding of their organisational and policy implications.
- To enable students to participate in debates on economic matters.

Essential reading

The main text for this course is:

Begg, D., G. Vernasca, S. Fischer and R. Dornbusch Economics. (McGraw Hill). Twelfth edition.

Earlier editions are also useful but there are differences. Note EC1002 covers the IS-MP model as a key framework of macroeconomic analysis, whereas earlier editions focus on the IS-LM model.

Learning outcomes

At the end of the course and having completed the essential reading and activities students should be able to:

- define key concepts and describe the models and methods used in economic analysis
- formulate real world issues in the language of economic modelling
- apply and use the economic models to analyse these issues
- discuss the potential and limitations of the models and methods used in economic analysis

Assessment

This course is assessed by a three-hour unseen written examination with three sections. Section A (40 marks) contains eight True/False/Uncertain questions evenly drawn from microeconomics and macroeconomics; Section B (30 marks) contains one microeconomics question; Section B (30 marks) contains one macroeconomics question.

Students should consult the appropriate EMFSS Programme Regulations, which are reviewed on an annual basis. The Regulations provide information on the availability of a course, where it can be placed on your programme's structure, and details of co-requisites and prerequisites.

Syllabus

This is a description of the material to be examined. On registration, students will receive details of the topics in the syllabus and directions to essential reading.

Introduction

Economics and the economy, theory and models in economic analysis, positive and normative economics, the big questions of microeconomics and macroeconomics and how we tackle them.

Microeconomics

The Theory of Consumer Behaviour: rationality, utility, indifference curves, utility maximisation, demand functions, substitution and income effects, substitutes and complements, demand elasticity, consumer surplus, insights from behavioural economics.

The Theory of the Firm: technology and production function, returns to scale, the law of diminishing marginal return, isoquants and isocost lines, cost functions, profit maximisation, the distinction between the long and the short run, fixed and variable costs, behaviour of the firm in the long and in the short run, the firm's supply function.

Markets and Market Structure: demand and supply, equilibrium, competitive industry (the competitive firm, entry and exit, short-run and long-run equilibrium, some comparative statistics), monopoly (the firm, monopoly and competitive equilibrium compared), natural monopoly, monopolistic competition (differentiated products, the firm's behaviour, the role of entry), oligopoly (interdependence, game theory, reaction functions).

Factor Markets: demand and supply of labour (utility maximisation and the supply of labour, profit maximisation and the demand for labour), monopsony, factors affecting labour market equilibrium (unions, immigration), returns to factors of production, economic rent, the income distribution and inequality.

Welfare economics and the role of government: General equilibrium, efficiency and equity, market failures, externalities, the Coase theorem, public goods, incidence of a tax, the role of government and government intervention.

Macroeconomics

Aggregation: aggregation, national income accounting, the circular flow of income, real and nominal GDP, measuring economic well-being

Economic Growth: supply side economics, growth in potential output, the steady state, technological progress, capital accumulation, convergence, endogenous growth, policies to promote growth.

The Goods Market: actual and potential output, consumption, investment, aggregate demand, income determination, equilibrium, the multiplier, consumption and taxation, the government budget, automatic stabilisers, savings and investment, the multiplier and taxation, the role of fiscal policy, the paradox of thrift, imports and exports, the multiplier in an open economy.

Money and Banking: the role of money, commercial banks and the supply of money, central banks and monetary control.

Money Demand, Interest Rates and Monetary transmission: the demand for money, money market equilibrium, targets and instruments of monetary policy.

Monetary and Fiscal Policy: the IS-MP model, monetary and fiscal policies.

Aggregate Demand and Aggregate Supply: Inflation and aggregate demand, aggregate supply in the long-run and the short-run, equilibrium inflation, adjustment to shocks.

Inflation: money and inflation, the Phillips Curve and inflation expectations, the long-run and the short-run, stagflation, costs of inflation, controlling inflation.

Unemployment: types of unemployment, analysis of unemployment, causes of unemployment, costs of unemployment.

Exchange Rate Determination and Open Economic Macroeconomics: exchange rate regimes, the balance of payments, the real exchange rate and PPP, internal and external balance, fixed and flexible exchange rate regimes, monetary and fiscal policy under fixed and floating exchange rate regimes