

# Economics as a Language

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# For more information

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- My website is open access
  - <http://www.econ.berkeley.edu/~olney>
  - Click on “previously taught courses”
  - Last 2 offerings of each class archived there
  - Not everything is archived though
    - No lab-section exercises on website
    - Problem sets not archived on website
- You can also email me directly
  - [olney@berkeley.edu](mailto:olney@berkeley.edu)

# Economics as a Language

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- Much of economics is quite intuitive
  - But we dress it up in economic language
- Protest: *“But you know what I meant!”*
  - Response: If you say “A burger, please” when you want a tuna melt, you’ll get a burger. Language matters.
- Emphasize intuition (clicker questions help)
  - Then introduce language
  - Then integrate intuition & language using events from life
- Real world applicability is key focus of course

# Example: $m.p.c. < 1$

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- Clicker question

Question: Suppose your paycheck goes up by \$200 a month. What would you do?

- A. Spend all \$200
- B. Spend \$100-\$150 and save or pay off debt with the rest
- C. Spend \$50-\$100 and save or pay off debt with the rest
- D. Spend \$0-\$50 and save or pay off debt with the rest
- E. Save or pay off debt with all \$200

# My goals

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- Real world applicability
  - Economics helps us understand the news
- Understand role of assumptions in arguments
  - Conclusions may change as assumptions change
  - Take a first step in this course; learn more later
- Normative arguments rest upon a goal
  - “Should” statements are about meeting a goal
  - *Your* goals stem from your values & beliefs

# Context

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- U.C. Berkeley
  - 720 students in micro-and-macro combination
  - 26 lectures (50 minutes); 26 lab sections (50 minutes)
  - TAs from any department on campus
- Siena College, upstate NY
  - 30 students in macro principles
  - 39 classes (55 minutes)
  - Just me!

# Approach

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- Textbook covers principles, no boxes
  - *Toot Toot*. Use Olney, *Microeconomics as a 2<sup>nd</sup> Language* and Olney, *Macroeconomics as a 2<sup>nd</sup> Language* (Wiley)
- Lecture content
  - Lots of applications
  - Emphasize ethics without naming it explicitly
- Reader (UCB only)
  - 29 news/op-ed articles (far fewer at Siena)
  - 3 discussion questions for each

# Approach, continued

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- Hands-on activities
  - Daily handout with problems addressing lecture content
  - Lab (section) exercises to do in groups
  - Problem sets
- Exams
  - Questions drawn from recent events
- And throughout: an expectation that they use economic language appropriately

# Examples: Lecture Content

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- PPF
  - Sharing – or divvying up – household tasks
  - Marshall Plan aid allows consumption beyond PPF
  - “Bridges to Prosperity” allows specialization & trade
- Profit maximization
  - Family-run businesses might have other goals
  - Meaning of “economic profit = 0”
- Macro
  - Fiscal and monetary policy drawn from that week’s news
  - Connect language from news with language from text

# Examples: Reader Questions

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# 14a. “The Fight for Classroom Attention: Professor vs. Laptop,” by Jeffrey R. Young. *Chronicle of Higher Education*, June 2, 2006.

# 14b. “In-class laptop use and its effects on student learning,” by Carrie Fried. *Computers & Education* 50 (April 2008): 906-914.

- a) What are the problems cited in the *Chronicle of Higher Ed* article with the use of laptops in class? How does the article by Prof. Fried support the claims in the article by Prof. Young?
- b) In the language of economics**, describe the negative externality created when a student uses the laptop during class for something other than note-taking. Draw a graph that depicts the market-equilibrium and social optimal quantity of laptops in class.
- c) Is it possible to institute a policy that brings the use of laptops to the social optimum? Does the banning of laptops produce the socially optimal quantity of laptops in class?**

# Examples: Reader Questions

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#28 “It's Time for the Fed to Lead the Fight,” by Christina D. Romer. *New York Times* (June 9, 2012).

- a) This op-ed was written by Professor Romer before the June meeting discussed in article #27. What did she think the Fed should do at its June 2012 meeting? Look back at article #27. Did they do as she urged?
- b) Based on the article, would you describe Prof. Romer as an “inflation hawk” or an “inflation dove”? What evidence in the article can you offer as support for your choice? Using the concept of the Taylor rule, describe the difference between an “inflation hawk” and an “inflation dove.”
- c) Do you think it's time for the Fed to lead the fight? Past time? Not yet time? Never time? Why?

# Examples: Reader Questions

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# 25. “Strong Yen Is Dividing Generations in Japan,” by Martin Fackler. *New York Times* (July 31, 2012).

- a) According to the article, is the Japanese yen strong (high) or weak (low)? What are the effects of this value of the yen? Which generation benefits? Which generation suffers?
- b) The Bank of Japan kept interest rates low to stimulate growth. Use a model of the determination of the price of the yen to show how this impacts the yen’s price. What assumptions do you need to make about interest rates in other countries in order to do your analysis?
- c) A strong yen corresponds to a weak dollar. Do you think the strong yen is good for Japan? Is it good for the U.S.? Explain. (Remember: in order to have any normative discussion, you have to explicitly state your goals.)

# Examples: Hands-on activities

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- Daily handout (individual activity; answers provided next lecture; 1 point per day based on effort; not graded)

# 4. In an hour, you can perform 4 lab experiments or solve 10 algebra equations. In an hour, I can perform 2 lab experiments or solve 20 algebra equations.

Who has the absolute advantage in performing lab experiments—you or me? Who has the absolute advantage in doing math—you or me? What is your opportunity cost of doing 1 more lab experiment? What is my opportunity cost of doing 1 more lab experiment? Who has the comparative advantage in doing lab experiments? Who has the comparative advantage in doing math? **Why doesn't one of us do all the math, the other do all the lab experiments, and then we trade?**

# Examples: Hands-on activities

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- Daily handout

1. You are assessed a fine for playing your stereo too loudly in the dorm. The fine doubles with each additional hour of loud music. The fine is \$100 for the 1<sup>st</sup> hour, \$200 for the 2<sup>nd</sup> hour, \$400 for the 3<sup>rd</sup> hour, \$800 for the 4<sup>th</sup> hour of loud noise, and so on. What does this fine structure tell you about the inconvenience your neighbors are experiencing?

2. Driving pollutes and contributes to global climate change. Suppose the current market price of driving is 25 cents a mile. Economists estimate that the marginal damage cost of driving is 5 cents a mile. If the government could tax drivers and force them to “internalize the externality,” how much would the tax be? Will the tax eliminate driving?

# Examples: Hands-on activities

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- Group work (3-4 people during lab; solutions later provided online; graded on effort; various ways of reporting out)

Identify the following scenarios as adverse selection or moral hazard.

- a. You insure your bicycle against theft. You ride your bicycle to the library just before closing to get a book needed for a term paper and don't stop to lock your bike to the bike stand.
- b. You have a tiny throat tickle and you're concerned that you may be developing a sore throat. You stop by the free clinic to have your throat looked at by one of the campus physicians.

# Examples: Exam Questions

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- Four years of old exam questions are on course website, used as study aid before exams. “These are all word problems!” Indeed.

Rachel’s doctor fears she may have mumps, a virus that is spread easily through airborne particles (sneezes, coughs), and which can have serious consequences in adults. The doctor wants to limit Rachel’s interactions with others while she may be contagious.

a. <draw a graph>

b. <identify negative externality & show it on graph>

c. The doctor quarantines Rachel so that she will have zero interactions with others. Rachel cannot leave her apartment nor allow others to enter her apartment for 5 days. **Does the quarantine generate the socially optimal quantity of interaction with others?** Explain.

# Examples: Exam Questions

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Because of the obesity problem in the United States, public health officials want teenagers and adults to drink less soda. In Richmond, California, a tax will be imposed of 5 cents per can of soda. Sellers will collect the tax and remit it to the government. Assume the sellers of soda are perfectly competitive firms.

A. Who will bear the larger burden of the tax in the short run? Explain. (NOTE: You need to make an assumption in order to answer the question. Write down your assumption & defend it.)

B. Should Richmond implement the soda tax? Defend your answer.

# Examples: Exam Questions

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- Final exam comprehensive essay question distributed 10-14 days before the final.

Congratulations! You're an intern in your U.S. Senator's office in Washington DC. Fabulous job!!

You've been asked to **write a briefing paper for the Senator outlining the economic issues inherent in the negotiations over the "Fiscal Cliff"** (or as some term it, the "Austerity Bomb"). Her memo to you follows. You want to impress your new boss with how much you learned in your econ class at Cal. You also want to make a positive contribution, so you want to be clear and organized. The Senator truly wants your recommendation, which should be well supported by the arguments you put forth in the briefing paper. You've got at least a week before she wants your paper, so that's plenty of time to do a bit of research if you need to learn more about the issues.

Memo from Senator to you:

*On January 1, a set of federal tax increases and spending cuts totaling about \$600 billion are scheduled to go into effect. Congress can take action before or after January 1. I must decide what action I will support. I need your economic analysis to guide me as I make my decision.*

*(Question then contains several specific prompts)*

# Student gratitude

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- You have opened my eyes to the world around me through teaching me to take what I learned in class and apply it to current & past events.
- Thank you for expanding my knowledge and my world.