

EC1800 ECONOMICS

Lectures 1-3

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Welcome to EC1800

- After the completion of this course, you should (hopefully!) have a reasonable understanding of how and why Economics affects the world and Ireland in particular
- We all know that “the economy” is important, but why?
- Why are recessions both a good and a bad thing?
- Why are people motivated by profit?
- Indeed, what is profit?

Welcome to EC1800

- What is Economics? What is Economic Growth? Is growth a good thing?
- What is wealth? How wealthy is Ireland? Why are there poor people and starving people?
- Why do things in the shop have the price they do?
- How does society know what to manufacture and when?
- Are taxes a good or a bad thing?

Welcome to EC1800

- We will be taking a more philosophical approach than is usual because it integrates better with the rest of your inter-disciplinary course
- We will also cover the basics of Economic Mechanics i.e. How Economists model the world
 - This is what your course reader booklet covers

An Overview of Economics

- Economics is currently in a crisis. Why?
 1. Standard Economics (what is called *The Neo-Classical Model*) is mostly unchanged since the 19th century
 2. Unfortunately Nobel Prize winning Economists have been finding major problems during the last twenty years
 3. We are just in the midst of switching over to a whole new approach to Economics

You're the lucky ones!

- If you were doing an undergraduate degree, we would HAVE to teach you the standard Neo-Classical model and nothing else
 - University degrees HAVE to be conservative. Why?
- Luckily for you, we are allowed to be more progressive for part time courses, so we can teach a *pluralist* course i.e. More than one way of looking at Economics rather than pure Neo-Classical
- So while we will still be primarily teaching the Neo-Classical Model, we also have less boring stuff!

Feedback Forms

- Using up-to-date material integrates this module far better with the rest of the Diploma
 - Much easier to properly answer the main questions of this course
 - Much more useful for you in your jobs in the years to come. You learn now what will be normally taught in ten years from now
 - However, teaching this is as new for us as it is for you
- Because this is an experiment, I am REALLY interested in your experience of this course
- At the end of every lecture I will hand out a feedback form and ask how it went

Course Structure I

- Five credit module at NFQ level 7 = undergraduate degree difficulty
- Twenty-four hours of class time
- For each hour of class time, you must perform three hours of self-directed learning
 - This equals 9.5 additional hours of reading and study per week
- Good news: No Maths!!!
- Bad news: The Readings are hard. You will constantly feel out of your depth! Don't worry, this is NORMAL and it's GOOD for you!

Course Structure II

- Main textbook: *Economics* by John Sloman (any edition, some older ones are only 1p (+£4 P&P) from amazon.co.uk)
- Most of the lecture content will cover content from this textbook
- For your self-directed study (76 hours total), you will study one chapter from five more books throughout this course
- Each week you will be given a handout photocopied from one of these books and a set of questions to answer

Course Structure III

- You don't have to buy these books, but to get the top mark you will HAVE to attempt to read all of them. They have been deliberately chosen to be very cheap (some are only 1p!). They are also very easy to read
 - Not academic, no referencing, no maths, very few graphs
- You DON'T need to know all these books or to have read them cover to cover. Just skimming the top and knowing the main points will be enough to get top marks.

Course Structure IV

- You DON'T need to read any further material other than specified or handed out
- At the end of this course, you have a written assignment: a 1,500 word essay (not including bibliography or footnotes)
- You will need to use what you have learned from this course to write this essay
- A good SYNTHESIS of the material, reasonably argued, will get you top marks
- The essay is due on the 20th January 2009

Book One

Freakonomics by Steven D. Levitt & Stephen J. Dubner

- + Probably going to be the Western economic approach of next twenty years (thanks to President Elect Obama)
- + Fun and easy to read
- Assumes that Economics can explain everything
- Thinks all humans are self-interested (even selfish) and rational

Book Two

Enron: Anatomy of Greed by Brian Cruver

- + Basically a thriller, but explains how the credit crunch has happened i.e. Forewarned the future
- + Points out that accounting is the basis of all Economics
 - not rational man
- Not rigorous nor academic in the slightest

Book Three

Happiness: Lessons from a New Science by Richard Layard

- + Written by an eminent and respected Economist
- + Asks why Economic Growth isn't making people happier – a very good point!
- Like most Economists, Layard gets a bit dry at times

Book Four

The Upside of Down: Catastrophe, Creativity and the Renewal of Civilisation by Thomas Homer-Dixon

- + The absolute latest in thinking
- + Written by international expert in Strategy who advises the World Bank, the CIA, the World Economic Forum etc.
- + Written as a personal journey of discovery, so really easy to read
- Talks about a lot of stuff nothing to do with Economics

Book Five

Butterfly Economics by Paul Ormerod

- + Written by one of the world's leading Economists in the New Economics Field
- + Explains cutting edge topics in very easy English
- Much more technical than the other books
- Overly focuses on Economics when other topics need considering



Is all this okay?

It's your course (you paid for it!),
so is all of this okay with you?

What is Wealth?

Kinds of Wealth I

- A big house
- A nice car
- A cool mobile phone
- Fashionable clothes
- Cold Hard Cash!

What links all these kinds of wealth?

How do you measure them?

- Human Happiness
- Quality of Life
- Environmental/Natural Wealth
- Religious Wealth

And what is different about these kinds of wealth?

How do you measure these?

Kinds of Wealth II

These types of wealth are mostly *relative* to SOCIETY

- e.g. Is my mobile phone better or worse than my friend's phone?
- We tend to measure these with **money**. This *compares* the item to everything else you can **buy** on the market

These types of wealth are mostly *relative* to YOU

- e.g. either you think you are happy or you are not. Either you think the environment is polluted or it is not.
- We tend to measure these with **subjective** surveys like your feedback forms. This compares what you think about yourself to what others think about themselves

Measuring Money I

- How do we measure money wealth (i.e. *wealth relative to society*)?
 1. Convert possessions to current market value
 2. Add them together
 3. Subtract how much money you owe to others
- How much are you worth?
 - If you are like most people, you are worth minus a few ten thousand thanks to your mortgage and credit cards
 - Therefore do you feel wealthy?

Measuring Money II

- Of course, being worth minus a few ten thousand euro doesn't make people feel impoverished
- Why do this course unless you think it will improve your earnings in the future?
- Therefore, we all have POTENTIAL wealth i.e. how much money we MAY earn in the future
 - We may be worth minus a few ten thousand euro now, but most of us will pay off our mortgage by the time we retire. Then we will be worth PLUS a few hundred thousand euro!!!

What kinds of *potential*
wealth can you think of?

Measuring Money III

- Increasing your potential wealth ALWAYS means taking a risk
 - No matter how hard you work or how many precautions you take, things may go wrong just from bad luck
- Furthermore, investing your time now into the future means spending time not doing something profitable right now
- So, for example, being here at this course instead of working for the same hours means sacrificing profit now for (hopefully higher) potential future profit

Measuring Money IV

- The technical term for profit lost now because you are doing something else is *opportunity cost*
- For example, if you paint walls for a living earning €500 a week, your opportunity cost is the most profitable alternative with the same use of time
 - If the next best job you could do is working in McDonalds at minimum wage at €320 a week, then your net benefit is €180
 - If you were qualified as a computer programmer who could earn €800 a week, then instead your net loss is €300
- Obviously the *optimal* thing for both you and society is to be always making a net benefit. Things like recessions prevent this.

Measuring Money V

- If you are rational, you will always do whatever earns you the most benefit at any given time
- Under standard Neo-Classical Economics, benefit directly corresponds to consumption
 - Therefore, the more you consume, the more benefit you will gain e.g. The more ice cream you eat, the happier you will be
- The technical name for this benefit you get from activity is called *utility*. It is also called *economic welfare*
- Economics is all about maximising (or *optimising*) your potential utility. Across all of society, it is about maximising social welfare (which is not the benefits kind of welfare!)

**Is Maximising your
Potential Utility Wealth?**

Measuring Money VI

- What happens on Patrick's Street in Cork City?
 - People come into the shops and buy things which they use. Most of what they buy there they do not use to make other things
- What happens in Togher Industrial Estate?
 - People come into the warehouses and buy things which they later modify to make something else.
- The technical name for the first kind of good is a *final good* because it isn't modified further. The second kind of good is a *non-final good* because it goes into the making of a final good.

Measuring Money VII

- What happens if you add up all the money spent on all final goods and services in a region?
- For Cork and Kerry, this was €25 billion in 2005
- For the twenty six counties of Ireland, this was €260 billion in 2007
- The technical term for adding together all the final goods and services transactions in a year is:

Gross Domestic Product
(better known as *GDP*)

Comparing Activity I

- GDP is a reasonable measure of **economic activity** in a given geographical region
- If you believe that how much work you do is equal to wealth (the “Protestant work ethic”), then GDP is a reasonable measure of how much wealth is generated by a geographical region
- GDP is the standard measure of wealth in the Western world
- Which regions have the most economic activity?

Comparing Activity II

Rank	Country ↓	GDP (millions of USD) ↓
—	World	54,584,918
—	European Union	16,905,620
1	United States	13,807,550
2	Japan	4,381,576
3	Germany	3,320,913
4	China (PRC)	3,280,224
5	United Kingdom	2,804,437
6	France	2,593,779
7	Italy	2,104,666
8	Spain	1,439,983
9	Canada	1,436,086
10	Brazil	1,313,590

Comparing Activity III

- Obviously, more people produce more activity – that's why the USA and the EU are at the top
- Therefore to properly compare *relative* activity of people between regions, we need to divide by the number of people in a region
- The technical name for this is *per capita*

Comparing Activity IV

Country ↓	Rank	IMF[1] ↓
Luxembourg	1	103,125
Norway	2	83,485
Qatar	3	78,754
Iceland	4	64,548
Ireland	5	60,209
Switzerland	6	58,513
Denmark	7	57,137
Sweden	8	49,603
Finland	9	46,856
Netherlands	10	46,774
United Kingdom	11	46,099

Comparing Activity V

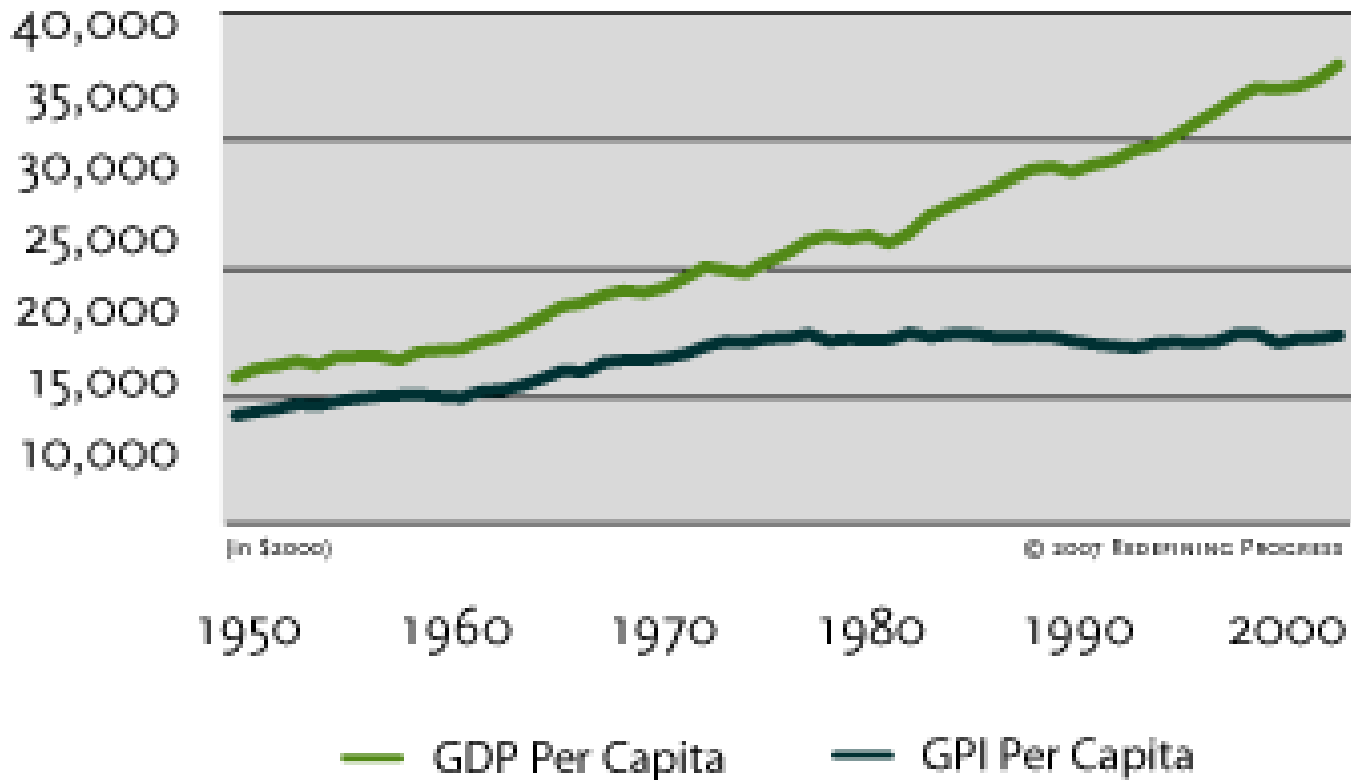
- According to that table, the Irish economy generates the fifth most economic activity per person in the world!
- Is this something we should be proud of?
- We are definitely very busy. Are we wealthy?
 - The average Irish person takes three foreign holidays a year. Most Europeans take one.
 - Irish house prices have shot up during the last twenty years because Irish people like investing their wealth in things they can see. Meanwhile, the Irish stockmarket did very poorly relative to world stockmarkets (you can't see stocks & shares!)

Comparing Activity VI

- Is activity (busyness, business) wealth?
- What about economic activity which does not produce a final good?
 - E.g. Child minding, home services, charity work, anything on the black market e.g. Organised crime
- What about economic activity fixing the costs of crime, pollution, vandalism?
- World War I and II saw a massive spike in GDP as all wars do because of much increased final goods production. But is being at war wealthy?

Comparing Activity VII

GROSS PRODUCTION VS. GENUINE PROGRESS, 1950-2004



See You Next Week!