

Godfrey Okoye University

Department of Economics

ECO 101 Course Syllabus First Semester

2020/2021 Academic Session

Course Information

Course Title: Principles of Economics I

Course code: ECO 101

Prerequisites: None

Instructor Information

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Required Course Material

Text: parkins and powel or any other principles of economics textbook

Course Objectives

This course enables students of economics to realize the ancient, classical and current trends and nature of economics, graphs, branches of the course.

Learning Outcome

Any student that completes the course outline will be equipped to digest economic situations based on existing theories, using the postulations for problems investigation and analysis.

Course Policies

The final grades will be judged based on attendance, discussions, assignments and exams

Student Assessment and Grading Scale

Assignment 30%

Examination 70%

Total 100%

Grading will be assigned in accordance with university approved grading scale which in general or on average would reflect the following: A=70-100, B=60-69, C=50-59, D=45-49, F=0-44

Course Outline

Privatization

9 November, 1989 is a date that will long be recalled in the world's economic history books. On that day the Berlin Wall tumbled and with its destruction, two Germanys embarked on a path towards unity. West Germany was a nation designed on the model of the rest of Western Europe. In these nations, people own property and operate businesses. Privately owned businesses produce goods and services and trade them freely with their customers in shops and markets. All this economic activity is conducted by people who pursue their own self-interest. East Germany was a nation designed on the model of the Soviet Union – a communist state. In such a state, people are not free to operate businesses and trade freely with each other. The government owns the factories, shops and offices, and it decides what to produce, how to produce it and for whom to produce. Economic life is managed in detail by a government central economic planning agency, and each individual follows instructions. The entire economy is operated like one giant company. The Soviet Union collapsed soon after the fall of the Berlin Wall and splintered into a number of independent states, each of which embarked on a process of privatization. China, another communist state, began to encourage private enterprise and to move away from its sole reliance on public ownership and central economic planning during the 1980s. Today, only Cuba remains a communist state, and even there, communism is beginning to crack and privatization is beginning to creep in. Do publicly owned businesses coordinated by the central planning system of communism serve the social interest better than private businesses that trade freely in markets like they do in Europe? Or is it possible that our economic system serves the social interest more effectively?

Globalization

Whenever world leaders hold summit meetings, anti-globalization protests accompany them. Globalization – the expansion of international trade and investment – has been going on for centuries, but during the 1990s, advances in microchip, satellite and fibre-optic technologies brought a dramatic fall in the cost of communication and accelerated the process. A phone call or even a video conference with people who live 10,000 miles apart has become an everyday and easily affordable event. Every day, 20,000 people travel by air between Europe and America and another 20,000 between America and East Asia. The result of this explosion of communication is a globalization of production decisions. When Nike decides to increase the production of sports shoes, people who live in China,

Indonesia or Malaysia get more work. As more and more people use credit cards, people in Barbados get hired to key in the data from sales slips. When Sony wants to create a new game for PlayStation 2, or when Steven Spielberg wants a movie animation sequence, programmers in India or New Zealand write the code. And when China Airlines wants some new airplanes, it is most likely that Europeans who work for Airbus or Americans who work for Boeing will build them. As part of the process of globalization, Europe produces more services and fewer manufactured goods. And China and the small economies in East Asia produce an expanding volume of manufactures. The economies of Asia are also growing more rapidly than are those of Europe and the United States. China is already the world's second largest economy in terms of production and, on current trends, by 2013 it will be the world's largest economy. This rapid economic expansion in Asia will bring further changes to the global economy as the wealthier Chinese and other Asians begin to travel and buy more of the goods and services that are produced in Europe and other parts of the world. Globalization will proceed at an accelerated pace. But globalization is leaving some behind. The nations of Africa and parts of South America are not sharing in the prosperity that globalization is bringing to other parts of the world. Is globalization a good thing? Who does it benefit? Globalization is pretty clearly in the interest of the owners of multinational companies that profit by producing in low-cost regions and selling in high-price regions. But is globalization in your interest and the interest of the young worker in Malaysia who sews your new running shoes? Is it in the social interest?

The New Economy

The 1980s and 1990s were years of extraordinary economic change that have been called the Information Revolution. Economic revolutions don't happen very often. The previous one, the Industrial Revolution, occurred between 1760 and 1830 and saw the transformation from rural farm life to urban industrial life for most people. The revolution before that, the Agrarian Revolution, occurred around 12,000 years ago and saw the transformation from a life of hunting and gathering to a life of settled farming. Placing the events of the last 20 years of the twentieth century on the status of those two previous revolutions might be a stretch. But the changes that occurred during those years were incredible. And they were based on one major technology – the microprocessor or computer chip. Gordon Moore of Intel predicted that the number of transistors that could be placed on one integrated chip would double every 18 months (Moore's Law). This prediction turned out to be remarkably accurate. In 1980, a PC chip had 60,000 transistors. By 2000, chips

these questions and go about seeking answers to them. You're now going to begin to see how economists approach economic questions. In this section, we'll look at the ideas that define the economic way of thinking. This way of thinking needs practice, but it is powerful and as you become more familiar with it, you'll begin to see the world around you with a new and sharp focus.

Choices and Trade-offs

Because we face scarcity, we must make choices. And when we make a choice, we select from the available alternatives. For example, you can spend the weekend studying for your next economics test or having fun with your friends, but you can't do both of these activities at the same time. You must choose how much time to devote to each. Whatever choice you make, you could have chosen something else instead. You can think about your choice as a trade-off. A trade-off is an exchange – giving up one thing to get something else. When you choose how to spend your weekend, you face a trade-off between studying and going out with your friends.

Guns versus Butter

The classic trade-off is between “guns” and “butter” that stand for any pair of goods. They might actually be guns and butter. Or they might be broader categories such as defence goods and food. Or they might be any pair of specific goods or services such as orange juice and bottled water, footballs and cricket balls, schools and hospitals, haircuts and career advice. Regardless of the specific objects that guns and butter represent, the guns-versus-butter trade-off captures a hard fact of life: If we want more of one thing, we must trade something else in exchange for it. The idea of a trade-off is central to the whole of economics. We'll look at some examples, beginning with three of the big questions: **what, how and for whom?** We can view each of these questions about the goods and services that get produced in terms of trade-offs. What, How and For Whom Trade-offs Each of the questions what, how and for whom goods and services are produced involves a trade-off that is similar to that between guns and butter.

“What” Trade-offs What goods and services get produced depends on choices made by each one of us, by our government and by the businesses that produce the things we buy. Each of these choices involves a trade-off. Each one of us faces a trade-off when we choose how to spend our income. You go to the pictures this week, but you forgo a few cups of coffee to buy the ticket. You trade off coffee for seeing a film. The government faces a trade-off when it chooses how to spend our

hour – a move along its PPF from point B' to point E' in Figure 2.7(b). They also agree to trade cases and discs at a “price” of one case for one disc. So Ace sells discs to Galaxy for one case per disc, and Galaxy sells cases to Ace for one disc per case. With this deal in place, Ace and Galaxy exchange along the red “Trade line”. They exchange 6,000 cases and 6,000 discs, and Ace moves to point F and Galaxy moves to point F'. Each now has 6,000 discs and 6,000 cases, or 6,000 CDs. So each now produces 6,000 CDs an hour – double the previous production rate. This increase in production of 6,000 CDs an hour is the gain from specialization and trade. Both parties to the trade share the gains. Galaxy, which can produce discs at an opportunity cost of 3 cases per disc, can buy discs from Ace at a cost of 1 case per disc. Ace, which can produce cases at an opportunity cost of 3 discs per case, can buy cases from Galaxy at a cost of 1 disc per case.

Aces possibilities	Disc (Thousand per hour)	Cases	Galaxys possibilities	Disc (Thousand per hour)	Cases
A	0	4	E	0	12
B	3	3	D	1	9
C	6	2	C	2	6
D	9	1	B	3	3
E	12	0	A	4	0

Ace and Galaxy initially produce at points B and B' on their respective PPFs. Ace has a comparative advantage in discs, and Galaxy has a comparative advantage in cases. If Ace specializes in discs, it produces at point E on its PPF. If Galaxy specializes in cases, it produces at point E' on its PPF. They exchange cases for discs along the red “Trade line”. Galaxy buys discs from Ace for less than its opportunity cost of producing them, and Ace buys cases from Galaxy for less than its opportunity cost of producing them. Ace goes to point F and Galaxy goes to point F' – points outside their individual PPFs – where each produces 6,000 CDs an hour. Ace and Galaxy increase production with no change in resources.

For Galaxy, the cost of a disc falls from 3 cases to 1 case. So it gets its discs more cheaply than it can produce them itself. For Ace, the cost of a case falls from 3 discs to 1 disc. So it gets its cases more cheaply than it can produce them itself. Because both Ace and Galaxy obtain the items they buy from the other at a lower cost than that at which they can produce the items themselves, they both gain from specialization and trade.