

**PLEASE NOTE:** You are responsible for reading Reisman's Introduction and Chapter 1, *prior* to the first class meeting and for coming to class having downloaded Syllabus Supplement 1 from the course website <http://faculty.pepperdine.edu/greisman/index.htm>.

**PEPPERDINE UNIVERSITY**  
THE GEORGE L. GRAZIADIO  
SCHOOL OF BUSINESS AND MANAGEMENT

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Professor George Reisman

MBFE 657.44

Prices, Profits, and the Market Economy

SPRING 2005

THURSDAY

6–10 PM

ORANGE COUNTY CENTER

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SYLLABUS

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**Prices, Profits, and the Market Economy**  
**MBFE 657.44**  
**Spring Trimester, 2005**

**Days/Class times:** Thursday 6 PM-10PM

**Location:** Orange County Center

**Instructor:** Prof. George Reisman

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**Phone (home/office):** 949-831-6579

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**Fax:** 949-831-1783

**Course website:** <http://faculty.pepperdine.edu/greisman/index.htm>

**Introduction/Overview of the Course**

This course examines the domestic and global creation and distribution of goods and services as guided by the price system and the profit motive in contrast to price controls and socialist central planning. Emphasis is on how firms remain competitive through the progressive improvement of products and methods of production and adaptation to changing economic conditions, especially to changing patterns of consumer demand. The role of technological progress both in capital accumulation and economic progress and in bringing about changes in consumer demand is featured. Additional topics include domestic and global antitrust policy; environmentalism and pollution; the law of comparative advantage; a rising productivity of labor and living standards as dependent on free markets, saving, technological progress, and capital accumulation; the productive role of businessmen and capitalists and of financial markets, retailing, wholesaling, and advertising; the nature and causes of inflation, unemployment, shortages, economic stagnation, and international economic conflict; taxation and budget deficits; the validation of wealth-creating activity and the fundamental economic institutions of private ownership of the means of production, economic inequality, and economic competition, in the face of widespread criticisms.

**Class Format**

Informal lecturing with substantial interaction between professor and students. Students should feel free at all times to raise questions concerning any of the material discussed in class or in the assigned readings and to make their own input where they feel they have something to contribute.

**Books For The Course**

A. George Reisman, *Capitalism: A Treatise on Economics*. Ottawa, Illinois: Jameson Books, 1996. (**Note:** A CD-Rom version of the text is also available. In addition, the text is on line in its entirety, on the course web site. The CD version allows you to print pages and copy and paste text. The online version does not.)

B. *Optional*: Paul Samuelson and William Nordhaus, *Economics*, 17th Edition, (New York: McGraw Hill, 2001). This book is suggested for students who may be interested in a textbook with a strong anti-free-market bias. All suggested readings in this text are optional, in the sense that no examination questions will require their having been read.

**Grading**

Final grades will be letter grades incorporating a plus and minus scale. The numerical equivalents of letter grades appear immediately below.

<u>Numerical Grade</u>	<u>Letter Grade</u>	<u>Grade Points</u>
94-100	A	4.0
90-93	A-	3.7
85-89	B+	3.3
80-84	B	3.0
77-79	B-	2.7
74-76	C+	2.3
70-73	C	2.0
67-69	C-	1.7
64-66	D+	1.3
60-63	D	1.0
57-59	D-	.7
0-56	F	No Grade Points

Minimum Basis for Evaluation: Midterm and Final Examinations

As a minimum, final grades will be based equally on the student's grades on the mid-term and final examinations; that is, no student will receive a grade that is less than corresponds to the average of his scores on these exams. Thus, for example, a student with an average score of 94 or better on these two exams is automatically guaranteed a grade of "A," and so on down the table, with the corresponding differences.

Class Participation

Regular and punctual attendance combined with class participation that is valuable in the opinion of the instructor can add significantly to a student's grade by means of reducing the weight assigned to the examinations by as much as 25 percent, that is, from 100 percent to as little as 75 percent. Thus, for example, a student who earned the maximum of 25 percent of his grade on the basis of class participation and who had an average of 80 based on the exams, would end up with an overall class average of 85 instead of 80, because his test average of 80 would apply to only 75 percent of his grade. His final grade in this case would equal the sum of 25 percent plus  $.75 \times 80$  percent.

Students should understand that no credit for class participation is gained by mere expressions of agreement with the instructor. Perhaps more importantly, they should understand that such credit is never lost by expressions of disagreement with the instructor. Indeed, credit is gained when statements of disagreement call attention to such things as the existence of a different point of view or the need to apply a point to some particular important circumstance that it appears the instructor has overlooked. Apart from excessive absences (about which, see the paragraph on attendance policy, below) the only thing that can ever deprive a student of credit for class participation is his failure to participate. The student's right to disagree with the professor in class discussion is secured by the fact that the regularly scheduled midterm and final examinations are entirely of the objective type, in which every student must be graded according to the exact same standard.

### **Attendance Policy**

Regular and prompt attendance is strongly encouraged. Each absence in excess of one class reduces the extent to which a student can take advantage of the possibility of improving his grade on the basis of class participation. The first such additional absence reduces from 25 to 20 the number of such points that it is possible for a student to earn. The second such additional absence reduces the number of such points to 10, and the third, to zero. Failure to return to class following the mid-class break counts as half an absence the first two times it occurs. A third such failure eliminates the possibility of gaining credit for class participation.

### **Exam Dates**

Midterm: the eighth class session. Final: the last class session.

### **Exam Coverage: What You Are Responsible For**

Exams will cover both class discussion and the assigned readings. In order to avoid being overwhelmed at exam time, you are strongly urged to do the readings *as assigned* or sooner. (Please note that there is a reading assignment prior to the first class session.) Since the reading material is often difficult, it is desirable to break it up into smaller units, and do a portion several times a week, rather than try to absorb the whole assignment at one sitting. Under no circumstances should you leave the material to the week or weekend before exam time. That is a policy that is simply incompatible with successful performance in this class.

### **Course Web Site**

As noted above, this course has a web site:

<http://faculty.pepperdine.edu/greisman/index.htm>.

The web site contains an interactive version of this syllabus **and many materials used in class which must be downloaded**. Additionally, it contains numerous links to important sources of economic information and links to such economic-policy making bodies as Senate and House committees, Cabinet Departments, and various government agencies.

### **Access to the Instructor**

I'll be glad to talk with you after class on the evenings we meet, and will stay until 45

minutes after class if necessary. I will also be glad to talk with you on the phone. My phone number is 949-831-6579. My fax number is 949-831-1783. If you need to write to me, my address is: 26881 Rocking Horse Lane, Laguna Hills, CA 92653. My e-mail address is: greisman@pepperdine.edu

### **GSBM Conduct and Disabilities Policies**

The GSBM Administration has asked that the following statement appear in every syllabus: GSBM students are expected to respect personal honor and the rights and property of others at all times. The University's rules on conduct can be found in the GSBM Catalog on pages 204-205 in the 2004-2005 catalog. Additionally, students with disabilities are encouraged to familiarize themselves with the University's Policies on Disabilities on page 35 in the 2004-2005 GSBM Catalog. Lauren Breeding, Director of Disabilities Services can be reached at (310) 506-6500.

### **Note on Readings and Downloads**

Please adhere to the reading schedule described below, in order to come to class prepared. **Reading assignments should be read *prior* to the class meeting under which they appear.** Thus, as stated on page 1, above, the reading assignment for Week 1 should be read prior to the first class meeting. Similarly, downloads should be made prior to the class meeting under which they appear and be brought to that class meeting. Thus, for example, Syllabus Supplement 1 should be downloaded prior to the first class meeting and be brought to the first class meeting.

An essential part of your preparation is to write down the points you don't understand in the readings and raise questions on them in class. Doing so will both add to your knowledge and help you gain credit for class participation. Demonstrating knowledge of the readings by being able to answer other students' questions is also an excellent way to gain credit for class participation. Please note that while all of the topics listed below are covered in the assigned readings, it will most likely not be possible to cover all of them in class. In addition, depending on the interests and educational needs of particular classes, some topics not listed may very well be raised by class members and require discussion. You will find the study-review questions referred to below, under downloads, to be helpful to you in your studies. Please be sure to bring the appropriate set with you to class.

### **Week 1**

Introduction: The nature and value of economics. The division of labor as the central requirement of a high and rising output per capita. An overview of the subject's content and history. Principal applications. The philosophical foundations of economic activity. Economics and capitalism. Economic freedom and government.

### **Readings**

Reisman: Introduction and Chapter 1

*Optional:* Samuelson, Chapter 2

### **Downloads**

Syllabus Supplement 1

Study Review Questions on Introduction and Chapter 1

**Week 2**

The role of wealth in human life. "Scarcity" and the limitless need for wealth. The law of diminishing marginal utility and its reconciliation with the limitless need for wealth. Natural resources, the law of diminishing returns, and conservationism. The ecological critique of economic progress.

**Readings**

Reisman: Chapters 2 and 3

*Optional:* Samuelson, Chapters 1, 18

**Downloads**

Syllabus Supplement 2

Study Review Questions for Chapters 2 and 3

**Week 3**

The division of labor as the central requirement of a high and rising output per capita; its advantages and alleged shortcomings. Dependence of the division of labor on the economic institutions of capitalism, especially the price system. Demand and supply curves. The law of demand. Elasticity of demand.

**Readings**

Reisman: Chapters 4 and 5

*Optional:* Samuelson, Chapters 3-5

**Downloads**

Syllabus Supplement 3

Study Review Questions for Chapters 4 and 5

**Weeks 4 and 5**

The uniformity-of-profit principle and its applications to consumer sovereignty, economic progress, farm subsidies, rent and price controls, profit taxes, and racial discrimination. Tendencies toward uniform prices over space and time; applications to the Arab oil embargo and commodity speculation. Tendency toward a uniformity of wage rates at any given level of ability. Equal pay for equal work. Permanent inequalities in wage rates. Prices and costs of production. Ultimate analysis of cost of production. Cost of production and supply and demand. Pricing of goods and services in limited supply. Costs and economic coordination. The free market's efficiency in responding to economic change. Factor prices and what they reflect and accomplish.

**Readings**

Reisman: Chapter 6

*Optional:* Samuelson, Chapter 7

**Downloads**

Syllabus Supplement 4

Study Review Questions Chapter 6

**Weeks 6 and 7**

Price controls, shortages, and economic chaos. Illustrations from the energy crisis and rent controls. From partial price controls to universal price controls. Universal price controls and *de facto* socialism. The chaos of socialism. Understanding the collapse of

Soviet Russia and the communist bloc on the basis of price theory. The tyranny of socialism.

**Readings**

Reisman, Chapters 7 and 8

**Downloads**

Syllabus Supplement 5

Study Review Questions Chapters 7 and 8

**Week 8****MIDTERM EXAMINATION****Week 9**

The influence of the division of labor on private ownership of the means of production. Implications for redistributionism, inheritance, taxation, and land rent. Economic freedom, territorial sovereignty, and peaceful international relations.

**Readings**

Reisman: Chapter 9, Part A

**Downloads**

Syllabus Supplement 6

Study Review Questions Chapter 9, Part A

**Week 10**

Economic inequality and economic competition. The law of comparative advantage and the pyramid-of-ability principle. Free international trade. Population growth and the freedom of immigration. Equality of opportunity.

**Readings**

Reisman: Chapter 9, Parts B and C

*Optional:* Samuelson, Chapters 15-17, 19

**Downloads**

Syllabus Supplement 6

Study Review Questions Chapter 9, Parts B and C

**Weeks 11 and 12**

The monopoly question. The political versus the economic concept of monopoly. Capital requirements and entry “barriers.” The alleged tendency toward universal monopoly. The predatory-pricing doctrine. Marginal revenue and marginal cost. Cartels. The pure and perfect competition, oligopoly, and monopolistic competition doctrines.

**Readings**

Reisman: Chapter 10

*Optional:* Samuelson, Chapters 8-11

**Downloads**

Syllabus Supplement 7

Study Review Questions Chapter 10

**Weeks 13 and 14**

The division of labor and the concept of productive activity. The vital role of money making in the concept. The productive functions of businessmen and capitalists, of retailing, wholesaling, and advertising, of the stock and other financial markets. The error of Adam Smith and Karl Marx in postulating a primacy of wages and viewing all other incomes as a deduction from wages. Exposition and critique of the Marxian exploitation theory. The productivity theory of wages. Labor unions and labor legislation. A reinterpretation of modern economic history. The productive functions of businessmen and capitalists, of retailing, wholesaling, and advertising.

**Readings**

Reisman: Chapters 11 and 14

*Optional:* Samuelson, Chapters 12-14

**Downloads**

Syllabus Supplement 8

Study Review Questions Chapters 11 and 14

**Week 15****FINAL EXAM**