

PLEASE NOTE: You are responsible for reading Hazlitt: pp. xi–xvi and 7-89 (i.e., the two Prefaces and Chapters I-XII) *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

Professor George Reisman

BSM 477.21/BSM 477.42

Money and Financial Markets

SPRING 2005

MONDAY/TUESDAY

6–10 PM

WEST LOS ANGELES CENTER/ORANGE COUNTY CENTER

SYLLABUS

Money and Financial Markets
BSM 477.21/BSM 477.42
Spring Trimester, 2005

Day/Class time: Monday/Tuesday 6 PM-10PM

Location: West Los Angeles Center/Orange County Center

Instructor: Prof. George Reisman

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Introduction/Overview of the Course

The focus of this course is on the analysis of national income, interest rates, monetary and fiscal policy, inflation, and business cycles. It relates money, capital, and financial futures markets and the marginal efficiency of investment to business decisions. The emphasis is on providing an understanding of the macroeconomic environment in which business firms operate.

A leading theme of the course will be the possibility of continuous capital accumulation and economic progress based on the combination of private ownership of the means of production, economic freedom, saving, and technological progress.

Course Objectives

To provide the student with a comprehensive knowledge of the operations of a free-enterprise, division-of-labor society, with special emphasis on the phenomena of money, production, real wages and the productivity of labor, profit, saving and capital accumulation, and economic progress. The consequences of government intervention with respect to these phenomena will be considered in depth.

To teach the student to think of economic phenomena in terms of their long-run effects on all groups, not merely their short-run effects on those directly concerned and to be able to apply economic principles to the understanding of the contemporary economic world.

Class Format

Informal lecturing with substantial interaction between professor and students.

Students are strongly encouraged 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. Doing so can add significantly to one's grade. (See below.)

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. Henry Hazlitt, *Economics In One Lesson* (paperback). San Francisco: Laissez-Faire Books, 1996.
- C. In addition, the student will be responsible for downloading from the course website the readings assigned in a short collection of essays compiled by the instructor titled *Supplementary Readings in Macroeconomics*.
- D. (optional) Kenneth M. Morris, Virginia B. Morris, Alan M. Siegel, *The Wall Street Journal Guide to Understanding Money & Investing*

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.

Exam Dates

Midterm: the seventh class session. Final Exam: 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. Please continue with the pace of assigned readings laid out below, even if class discussion should fall behind.

Course Website

This course has a web site: <http://faculty.pepperdine.edu/greisman/index.htm>. The web site contains numerous links to important sources of economic information. It also includes links to such economic-policy making bodies as Senate and House committees, Cabinet Departments, and various government agencies. Additionally, it contains the course syllabus and most of the materials distributed in class, which, if need be, can be downloaded.

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

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.

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.

COURSE CONTENT AND READING ASSIGNMENTS, INCLUDING THOSE FOR THE FIRST CLASS MEETING

The reading assignments listed below typically appear in the week or weeks *prior* to the class session in which they are discussed. Please adhere to this reading schedule in order to come to class prepared. 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.

Readings (*DUE PRIOR TO FIRST CLASS SESSION*)

Hazlitt: pp. xi-xvi and 7-89 (Hazlitt's two Prefaces and Chapters I-XII)

Download:

Syllabus Supplement 1 (please bring to first class)

Week 1

Introduction to the economist's perspective: from the "broken window" to the "drive for exports." Invariable money. The quantity theory of money. The increase in the quantity of money as the cause of rising prices.

Readings

Reisman: pp. 141-144, 503-526 (end of Section 3), 464-467

Be sure to see the Reading assignment due prior to the first class, above, on the preceding page.

Downloads

Syllabus Supplement 1 (needed for Weeks 1-3); Money Supply Data (optional: Study Review Questions on Chapter 12)

Week 2

The origin and evolution of money and the contemporary monetary system: from barter to media of exchange, to gold and silver commodity money; 100 percent reserve banking and fractional reserve banking; standard money, fiduciary media, and fiat money. The deflationary potential of fiduciary media. Central banking: the Federal Reserve System and its powers of money creation.

Readings

Reisman: pp. 526–540

Frederic Bastiat “The Balance of Trade” and “A Petition” in *Supplementary Readings in Macroeconomics*.

Reisman: pp. 187–188, 191–192

Week 3

The relationship between the demand for money and changes in the quantity of money. Relationship of the rate of interest to the supply of and demand for money. The balance of trade and payments.

Readings

Reisman: pp. 42–49, 54–61, 542–559

Week 4

The economic problem and its denial: production versus consumption—the scarcity of wealth versus the scarcity of the need or desire for wealth; the making of goods versus the making of work. Opposite appraisals of the causes of depressions, and of the economic effects of machinery, worker competition, war, government spending, population growth, advertising, foreign trade, imperialism, and technological progress.

Readings

Reisman: pp. 559–573 (end of Section 4)

Downloads

Syllabus Supplement 2 (needed for Weeks 4 and 5)

(optional: Study Review Questions on Chapter 13)

Week 5

Say's Law. Monetary demand and real demand; why only more production and supply can increase real demand. Say's Law and the harmony of long-run self-interests. Say's Law and the impossibility of a general overproduction; why falling prices caused by increased production do not represent deflation.

Readings

Reisman: pp. 580–599; 613–622

Hazlitt: pp. 134–151 (chaps. XIX–XX)

Download

Syllabus Supplement 3 (needed for Week 6)

Week 6

Mass unemployment: the causes and the remedy. Full employment and World War II. Real wages and the productivity of labor. Is government intervention to promote labor unions and raise wages in the self-interest of the wage earners or is its actual effect to cause unemployment and hold down the rise in real wages?

Readings

Reisman: pp. 130–133, 441–447, 456–459

Week 7**MIDTERM EXAMINATION**

Following midterm: The vital connection between money making and productive activity in a division-of-labor society. Money-making and the distinction between production and consumption, productive expenditure and consumption expenditure, capital goods and consumers' goods.

Readings

Reisman: Chapter 15

Hazlitt: pp. 177–190 (chap. XXIV)

Downloads

Syllabus Supplement 4 (needed for Weeks 7-9)

(optional: Study Review Questions on Chapter 11, Part A and Chapter 15)

Week 8

Aggregate production and aggregate expenditure: the classical view versus the Keynesian view. The role of saving in spending and income payments. Saving versus hoarding. Saving and aggregate economic accounting: the national income/net national product identity. J. S. Mill's proposition that demand for commodities is not demand for labor and the issue of double counting.

Readings

Reisman: pp. 622–642

Ludwig von Mises, “Capital Supply and American Prosperity” in *Supplementary Readings in Macroeconomics*.

Ludwig von Mises, “Interest” in *Human Action*, pp. 524-537 (reprinted in *Supplementary Readings in Macroeconomics*).

Downloads

Syllabus Supplement 5 (needed for Weeks 10-11)

(optional: Study Review Questions on Chapter 16)

Week 9

Capital accumulation and its causes. The role of saving. The role of technological progress and the productivity of capital goods. The role of economic freedom. Critique of the secular stagnation doctrine. National income and consumption.

Readings

Reisman: pp. 719–744 (end of Section 3)

Week 10

Capital, the productive process, and the rate of profit. The fundamental neutrality of technological progress with respect to the rate of profit. Profit and net consumption. Net investment and the rate of profit. Net investment and the increase in the quantity of money.

Readings

Reisman: pp. 744–797

Week 11

The nominal and real rate of return on capital. Money supply growth and production growth. The springs to profitability. The inherent monetary profitability of business in the aggregate, in the absence of financial contractions. Relationship of the net consumption/net investment theory to the time preference and productivity theories.

Readings

Reisman: Chapter 17

Downloads

Syllabus Supplement 6 (needed for Week 12)
(optional: Study Review Questions on Chapter 17)

Week 12

Applications of the theory of profit/interest: why there is no tendency toward a falling rate of profit with capital accumulation; why falling prices due to increased production do not reduce the rate of profit. Analysis of the effects of taxation, budget deficits, and the balance of trade on the rate of profit and interest. Implications for the theory of saving.

Readings

Reisman: Chapter 18

Downloads

Syllabus Supplement 7 (needed for Week 13)
(optional: Study Review Questions on Chapter 18)

Week 13

Keynesianism and Neo-Keynesianism. Exposition and critique of the Keynesian analysis: the unemployment equilibrium and the IS curve; the consumption and savings functions; the diminishing marginal efficiency of capital; liquidity preference and the liquidity trap; compensatory fiscal policy and the multipliers. The economic consequences of Keynesianism.

Readings

Reisman: Chapter 19

Ludwig von Mises—his first four essays and “The Inflationist View of History” and “The Gold Standard” in *Supplementary Readings in Macroeconomics*
Hazlitt: pp. 164-176 (chap. XXIII)

Downloads

Syllabus Supplement 8 (needed for Week 14)
(optional: Study Review Questions on Chapter 19)

Week 14

Inflation. Theories of rising prices. The meaning of inflation. The deeper roots and further effects of inflation, especially the effects on capital accumulation and the growth in the size and power of government.

Week 15

FINAL EXAMINATION