July 2003

Dear Student:

Welcome to MBA 674.21. In order to get a good start in this course, please be sure to read the following assignment before the first class: Henry Hazlitt, Economics In One Lesson, pp. xi–xvi and 3–89 (i.e., Hazlitt’s two Prefaces and Chapters I-XII).

Extensive information about the course, including an interactive version of the syllabus and a series of outline summaries can be found on the course website: http://faculty.pepperdine.edu/greisman/index.htm. The site also contains numerous links to important sources of economic information and to such economic-policy making bodies as Senate and House committees, Cabinet Departments, and various government agencies. Please be sure to go to this web site and download and print out a copy of “Syllabus Supplement 1” and bring it to the first night’s class.

I look forward to meeting you at the first class.

Sincerely,

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

Professor George Reisman
MBA 674.21
National Income Policy and Corporate Response
FALL 2003
MONDAY
6–10 PM
PEPPERDINE UNIVERSITY PLAZA

SYLLABUS
Introduction/Overview of the Course
This course deals with economic theories and social philosophies underlying contemporary economic issues and policies as they affect the modern business enterprise. The course covers the problems of inflation, unemployment, taxation, the domestic and global economic environment, fiscal and monetary policy, financial markets, productivity and economic progress, and the macroeconomic determinants of the general rate of profit and interest. Additional topics include alternative economic philosophies, with a particular emphasis on the free-market system, public policy, industrial relations and collective bargaining, and social and geopolitical issues in economics.

Two leading themes of the course will be 1) 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. 2) The ethical implication of the harmony of the rational self-interests of all men under these conditions.

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
B. Henry Hazlitt, *Economics In One Lesson* (paperback).

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

<table>
<thead>
<tr>
<th>Numerical Grade</th>
<th>Letter Grade</th>
<th>Grade Points</th>
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<tbody>
<tr>
<td>94-100</td>
<td>A</td>
<td>4.0</td>
</tr>
<tr>
<td>90–93</td>
<td>A–</td>
<td>3.7</td>
</tr>
<tr>
<td>85–89</td>
<td>B+</td>
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<tr>
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<td>74–76</td>
<td>C+</td>
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<tr>
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<tr>
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<td>D–</td>
<td>.7</td>
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<tr>
<td>0–56</td>
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</tr>
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</table>

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 x 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 Web Site**
This course has a web site: [http://faculty.pepperdine.edu/greisman/index.htm](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

**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 rules on conduct can be found on pages 221-222 of the GSBM Catalog. Additionally, students with disabilities are encouraged to familiarize themselves with the University's Policies on Disabilities on page 33 of the GSBM Catalog or contact the University's equal opportunity officer, Lauren Breeding, 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.

Note: The study-review questions referred to below, under downloads, will be a material aid to you in your studies. Please be sure to download them week by week.

Readings (DUE PRIOR TO FIRST CLASS SESSION)

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

Week 1

Orientation/review. 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

Hazlitt: pp. xi–xvi and 7-89 (Hazlitt’s two Prefaces and Chapters I-XII)
Reisman: pp. 503–526 (end of Section 3)
Samuelson, Chapters 1 and 4

Downloads

Syllabus Supplement 1
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
Samuelson: Chapter 9 (to p. 174), Chapter 10
**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**

**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
Study Review Questions on Chapter 13, Part A

**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)

**Downloads**
Study Review Questions on Chapter 13, Part B

**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**

**Downloads**
Syllabus Supplement 3
Study Review Questions on Chapter 13, Part C
**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)
- Samuelson: Chapter 16

**Downloads**
- Syllabus Supplement 4
- Study Review Questions on 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
- Samuelson: Chapters 5 and 11

**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

**Downloads**
- Syllabus Supplement 5
- Study Review Questions on Chapter 16
**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**
- 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 19

**Downloads**
- Syllabus Supplement 6
- Study Review Questions on Chapter 17

**Week 13**
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.

**Readings**
- Hazlitt: pp. 164-176 (chap. XXIII)
- Samuelson: Chapters 6–8, 18

**Downloads**
- Syllabus Supplement 8
- Study Review Questions on Chapter 19

**Week 14**

**FINAL EXAMINATION**