Economics I (Microeconomics)
Economics 2010-205
(aka The Productive Economy)

Professor William Lazonick
Spring 2017
Classes meet on Mondays and Wednesdays 2:00PM-3:15PM
Meeting place: Dugan Hall 102
Office hours: Dugan 205P Mondays-Wednesdays 12:15PM-1:45PM
email: William_Lazonick@uml.edu

READ THE FOLLOWING PAGES VERY CAREFULLY.
MAKE SURE THAT YOU UNDERSTAND WHAT THIS COURSE IS ABOUT, HOW IT OPERATES, WHAT IS EXPECTED OF YOU, AND WHAT YOU CAN EXPECT FROM THE COURSE.

About this course:

This course in the basics of microeconomics starts from the proposition that the most important economic phenomenon that needs to be understood in the economy is the availability of productive employment. In sharp contrast, the textbooks that are generally used in introductory microeconomics courses start from the proposition that the most important economic phenomenon that needs to be understood is how individuals allocate the money available to them between Product A and Product B (coconuts and fish are the “real-world” examples given in one textbook with which I am familiar). But to allocate money to alternative uses, or indeed to any uses, people need to have money, and for most people access to money depends on having a job (or in the case of children, their parents having jobs). Both the quantity and stability of employment income to which you have access depend on the quality of the job or jobs that you are able to secure.

In a job, one contributes to the production of goods and services that the society values and for which the society is willing to pay you an income. Therefore, rather than begin the microeconomics course with a theory of the consumption of goods and services, as has been the case in standard microeconomics courses for the past 70 years, we need to begin the study of economics with a theory of the production of goods and services.

Productive employment does not just appear. It results from investments in productive capabilities made by households, governments, and businesses – or what I call “the investment triad”. The processes through which, working together, allocation decisions by the investment triad generate productivity constitute the microeconomic core of the economy. It is generally said that we live in a “market economy.” Note, however, that governments, families, and businesses are all organizations, not markets. Well-developed
markets in labor, capital, and products are outcomes of the development of the economy, not causes. Although the prevailing ideology is that we live in a “market economy”, we have to study organizations – people working together in household families, government agencies, and business enterprises as well as civil society organizations—as the foundation for understanding how a so-called market economy actually operates and performs. Indeed, as we shall see in this course, once well-developed markets in labor, capital, and products emerge, society must regulate the operation of these markets if we want the operation of the economy to result in stable and equitable economic growth, or what I call “sustainable prosperity”.

In focusing primarily on the operation of the economy, this course falls into the analytical category that economists call “microeconomics,” with household families, government agencies, and business enterprises as “microeconomic units.” The analysis of how the economy as a whole performs is called “macroeconomics.” At the macroeconomic level, most economists would agree that superior economic performance entails the achievement of stable and equitable economic growth. We want the economy to grow so that we can have the potential of higher standards of living. We want that growth to be stable over time so that people will not have to suffer the booms and busts in employment and income that have often characterized the economy. And we want that growth to be equitable so that the distribution of the added productivity that enables economic growth is shared fairly among the people who through their effort and money contribute to that growth.

An understanding of how the economy can achieve stable and equitable growth at the macroeconomic level requires an understanding of how the operation of the economy at the microeconomic level supports, or undermines, stable and economic growth. In fact over the past three or four decades the U.S. economy in which we live has become increasingly unstable and inequitable to the point where it threatens economic growth. Since each of you in this class will be dependent on the economy for your standards of living for decades to come, you want a microeconomics course to provide you with insight into how the operation of the U.S. economy can help you to—or prevent you from—achieving a good standard of living. And that, fundamentally is what this course is about!

**What You Will Learn**

*(if you pay attention, do the readings, and submit the news items on time)*

This course teaches essential concepts that can be found in a conventional microeconomics textbook, but in a way that has far more relevance to the economic world in which we live. You will learn about:

- why *productivity* is the most important economic concept, and how productivity is related to *innovation*;
- when and how innovation takes place, and why it is essential to the achievement of *higher standards of living*;
- the roles of *households, governments, and businesses* in supporting or undermining the innovation process;
• why the economy needs to be understood as part of a social system that changes over time and that has different social characteristics in different nations;
• why some businesses grow to be as big as a small country, and the implications of large-scale enterprise for the achievement of stable and equitable economic growth;
• why well-developed markets are outcomes, not causes, of economic development;
• why well-developed markets must be regulated for the sake of stable and equitable economic growth;
• the different conditions under which business behavior is beneficial or contrary to the public interest;
• what factors drive the growth of the economy;
• why the levels of production and employment are often unstable;
• what factors determine the distribution of income among households;
• how employment relations influence the relation between economic growth and income distribution;
• how employment relations have changed over the past three decades;
• why “employment relations” are not the same thing as “the labor market”;
• why “middle-class’ jobs have been disappearing in the United States over the past three decades;
• the roles of financial markets, including the stock market, in the economy;
• what drives stock prices (it’s a combination of innovation, speculation, and manipulation);
• why a corporate focus on increasing its stock price can undermine the business corporation’s contribution to a stable and equitable economic growth;
• why there has been a growing concentration of income among the richest households over the past four decades;
• what stock options and stock buybacks are, and how their lethal combination contributes to employment instability and income inequity;
• the developmental, regulatory, and predatory roles of the government in the operation of the economy.

Course readings:

There is no textbook for this course. The readings and PowerPoint presentations will be made available to students in digital form or through online links.

Course requirements:

The grading components for this course are 20% for attendance at classes; 20% for participation, including the weekly submission of news items on time (see below); and 20% for research and writing each of three papers, subject to the condition that, by the end of the course, all the weekly news items and all three papers must be submitted to have the possibility of receiving a passing grade. That having been said, to get a decent grade you have to get your news item and essay assignments in on time. You will be penalized for late submissions of news items or course papers, with very heavy penalties for those whose news items and course papers are habitually submitted late. Each time that I have to remind you to submit missing news items or papers, your eventual grade will be penalized.
Attendance

Attendance at every class of this course is a necessary condition for receiving a good grade. Any student who cannot attend a class should send an email, preferably in advance, to the professor explaining her or his absence. *Your course grade will be penalized for unexplained absences.*

*Students must come to class on time;* late arrivals disrupt the class. Once a student has taken her or his seat in the class, *she or he cannot leave the class until the end of the class at 3:15PM.* If for any reason, you have to arrive at class late or leave class early, send the professor an email with an explanation in advance of the class in question, and enter or exit without disrupting the class.

**IMPORTANT:** *Laptop computers, tablets, cellphones, or any other digital devices may NOT be used in class.*

Participation

Students can participate in class by asking questions and engaging in discussion. A *mandatory* part of class participation entails *READING THE NEWS about the topics that we are discussing.* Each week we will confront a different topic, as specified in this syllabus. Based on the lecture on a Monday, each student will choose a *news item* to be sent electronically (as a pdf, Word document, or URL link) to Professor Lazonick by 11:59PM on the Tuesday of that week. *The first news item submission will be due on Tuesday, January 24, and on Tuesday for every week of classes thereafter through Tuesday, April 11 and the one more of Thursday April 20 (classes are April 19 and 21 that week). That will be 12 news items in total. There will be no news item required the last week of classes.* Students who submit items late will lose points off their grade. The more that you are overdue in submitting news items and the more that I have to remind you that you are overdue, the more that you will be penalized.

**IMPORTANT:** *IN SUBMITTING NEWS ITEMS include in your email at least one sentence stating why you chose this particular news item AND at least one sentence stating the main point of the news item. Email the news item to William_Lazonick@uml.edu. The subject line of the email in which you submit the news item must read: news item #1, news item #2, etc., LOOK AT THE SYLLABUS TO MAKE SURE YOU HAVE THE CORRECT NEWS ITEM # FOR THAT WEEK. If you should fall behind in submission of news items, do NOT submit more than one news item in one email. Also do NOT chose a news item that has been authored or co-authored by Professor Lazonick.*
Research and Writing

The three written papers will be graded for factual content, logical analysis, quality of exposition, use of course materials, additional research, bibliographic referencing, and critical insights. The content of the papers should draw upon course readings, class discussions, and any additional research that the student may choose to do. Each paper should be about 1,200 words (4 to 5 double-spaced pages), and must be submitted electronically in Word as an email attachment.

The paper topics and due dates are:

A. What is “productivity”? Why is productivity important to your standard of living? What can a family household do to make its members more productive? How might the pay that you receive in a job be related to productivity? Due electronically by 11:59PM on Sunday, February 26.

B. What role does a theory of the firm play in understanding employment, productivity, and income distribution in the economy? What does it mean to say that the firm maximizes profits (or minimizes costs) by optimizing subject to given technological and market constraints? What does it mean to say that the innovating firm seeks to transform technological and market constraints? Why is the theory of innovative enterprise important for understanding the operation and performance of the economy? Due electronically by 11:59PM on Sunday, April 2.

C. How might the government be involved in the microeconomic operation of the economy? Under what conditions and in what ways might the government’s role in the economy be predatory, regulatory, or developmental? How would you characterize the role of the U.S. federal government in the operation of the current U.S. economy? Do you think that the government’s role is different now than in the past? Due electronically by 11:59PM on Sunday, April 30.

NOTE: In writing these essays, be sure to 1) answer all parts of each question, 2) provide bibliographic references to course material and additional research materials that you have used, and 3) paginate.

There is no final examination in this course.

All students should familiarize themselves with UMass Lowell’s Academic Integrity Policy. It can be found at http://www.uml.edu/catalog/undergraduate/policies/academic_dishonesty.htm. In particular, students should take note that plagiarism in any form will not be tolerated.
ESSENTIAL LEARNING OUTCOMES

• Diversity and Cultural Awareness (DCA)
  This course meets the Essential Learning Outcome of Diversity and Cultural Awareness (DCA) as defined under the Core Curriculum requirements. As such, the course will assist students in developing a set of cognitive, affective, and behavioral skills and characteristics that will help them to engage in effective and appropriate interactions involving diverse cultural and social groups in various contents.

• Information Literacy (IL)
  This course meets the Essential Learning Outcome of Information Literacy (IL) as defined under the Core Curriculum requirements. As such, the course will instruct students as to the use of digital technologies, communication tools and/or networks to define a problem or an information need; devise an effective search strategy; identify, locate, and evaluate appropriate sources; and manage, synthesize, use and effectively communicate information ethically and legally.

• Social Responsibility and Ethics (SRE)
  This course meets the Essential Learning Outcome of Social Responsibility and Ethics (SRE) as defined under the Core Curriculum requirements. As such, the course will require students to reason about their own right and wrong conduct, assess the moral beliefs and practices of themselves and others, and apply that knowledge to make a positive difference in the community and the world.

• Written and Oral Communication (WOC)
  This course meets the Essential Learning Outcome of Written and Oral Communication (WOC) as defined under the Core Curriculum requirements. As such, the course will help students to enhance their abilities to develop and express ideas in written and/or oral formats, requiring the student to draw upon appropriate genres and styles with an emphasis on writing within the discipline.

• Critical Thinking and Problem Solving (CTPS)
  This course meets the Essential Learning Outcome of Critical Thinking and Problem Solving (CTPS) as defined under the Core Curriculum requirements. As such, the course will reinforce the students’ ability to identify, analyze, interpret, and evaluate arguments, data, evidence, problems, and conclusions as part of formulating an opinion or conclusion. Then use that information to design, evaluate and implement a strategy to achieve a desired outcome.

• Applied and Integrative Learning (AIL)
  This course meets the Essential Learning Outcome of Applied and Integrative Learning (AIL) as defined under the Core Curriculum requirements. As such, the course will enhance the students’ learning across their curriculum and co-curriculum, fostering connections between courses or by connecting courses to experiential learning opportunities.

• Quantitative Literacy (QL)
  This course meets the Essential Learning Outcome of Quantitative Literacy (QL) as defined under the Core Curriculum requirements. As such, the course will strengthen the students’ competency and comfort in working with numerical data.
About the professor:

William Lazonick is a professor at the University of Massachusetts Lowell. He is president and co-founder of The Academic-Industry Research Network, a nonprofit research organization. In recent years he has directed or collaborated on research projects based in Britain, Canada, China, France, Germany, Japan, Norway, Slovenia, South Korea, Sweden, and the United States, funded by the Ford Foundation, European Commission, Svenska Handelsbanken Foundation, Hans Böckler Foundation, and the Institute for New Economic Thinking, among other funding agencies.

Professor Lazonick holds a Bachelor of Commerce degree from the University of Toronto (1968), a Master of Science degree in economics from the London School of Economics (1969), and a Doctor of Philosophy degree in economics from Harvard University (1975). He has been awarded honorary doctorates by Uppsala University (1991) and the University of Ljubljana (2016).

Previously, Lazonick was Assistant and Associate Professor of Economics at Harvard University (1975-1984), Professor of Economics at Barnard College of Columbia University (1985-1993), and Visiting Scholar and then Distinguished Research Professor at INSEAD (1996-2007). He has also been on the faculties of University of Toronto, Harvard Business School, Institut Mines-Télécom (Paris), University of Tokyo, Norwegian Business School, University of Bordeaux, University of Toulouse, and University of Ljubljana, and was a visiting member of the Institute for Advanced Study in Princeton. He currently has research affiliations with the University of Ljubljana, Institut Mines-Télécom, and the School of African and Oriental Studies, University of London.

In 1991 Professor Lazonick was president of the Business History Conference, the main professional association of business historians in the United States. His work through the early 1990s was the subject of a chapter in the volume, American Economists of the Late Twentieth Century (Elgar 1996). He was the youngest of 36 economists selected worldwide to write an autobiographical essay in Exemplary Economists (Elgar 2000). He is the author or editor of fifteen books, including Competitive Advantage of the Shop Floor (Harvard University Press 1990) and Business Organization and the Myth of the Market Economy (Cambridge University Press 1991), and some 150 academic articles. Two times, in 1983 and in 2010, his publications won the prize, awarded by Harvard Business School, for the best article of the year in Business History Review. His book, Sustainable Prosperity in the New Economy? Business Organization and High-Tech Employment in the United States (Upjohn Institute for Employment Research 2009) was awarded the 2010 International Schumpeter Prize. In 2012 Oxford University Press published his book, Management Innovation: Essays in the Spirit of Alfred D. Chandler Jr., co-edited with David J. Teece. In 2016 Oxford University Press published his book, co-edited with Yu Zhou and Yifei Sun, China as an Innovation Nation. He is writing a book, The Theory of Innovative Enterprise, to be published by Oxford University Press. Much of Professor Lazonick’s work has been translated into a number of languages, especially Chinese.

Professor Lazonick’s article, “Profits Without Prosperity: Stock Buybacks Manipulate the Market and Make Most Americans Worse Off” received the HBR McKinsey Award for outstanding article in Harvard Business Review in 2014. This article also received an “Eddie” in 2015 from Folio magazine for the best article of 2014 in the category Consumer – Series/Single Article – Banking / Business / Finance.

Professor Lazonick often writes opinion pieces that appear in the media (many of these articles are assigned in the course.) Media articles based on Lazonick’s research on the negative impacts on innovation and job creation of stock buybacks and stock-based executive compensation, as well as other topics, have appeared in a wide variety of English-language outlets including New York Times, Boston Globe, Financial Times, Forbes, The Atlantic, Detroit Free Press, Observer, Los Angeles Times, US News & World Report, BusinessWeek and BloombergBusiness, Business Insider, International Business Times, Globe and Mail, USA Today, Huffington Post, Reuters, Wall Street Journal, Washington Post, Time, The Street, Politico, New Statesman, and Guardian, as well as in many foreign-language newspapers. He is frequently interviewed on radio and television, and is regularly invited to speak at academic conferences, research institutes, universities, government agencies, and corporate associations throughout the world. He is an informal advisor on economic matters to many prominent policy-makers.
COURSE OUTLINE AND READINGS:

Please read very carefully:
• During each week of the course, starting on September 12, the Monday class will be devoted to explaining key concepts and the Wednesday will be (as indicated below) a CASE STUDY that illustrates these concepts.
• During the course, you will be assigned additional readings; the readings included on this syllabus are only a partial list and are subject to change.
• Unless indicated otherwise, the readings can be found at UML e-resources. In-class instruction will be provided for accessing UML e-resources. Where indicated, readings can be accessed via URL links provided in this syllabus. For readings that are followed with [pdf], Professor Lazonick will provide you with the pdf of the reading sent via SIS as an attachment to your student.uml.edu e-mail address.
• PowerPoint presentations are distributed on a weekly basis. Within these presentations, you will find explanations for key concepts, important data, and links to websites where you can fund additional information. These presentations represent critical course material that can be used, with proper citations, in writing your three course essays.

Overview of the course (January 18)

1. What is a productive economy? (January 23 and 25) NEWS ITEM #1

- Key actors in the productive economy: households, businesses, and governments
- Why “supportive families”, “innovative enterprises”, and “developmental states” are critical to the productive economy
- Macroeconomic performance of the economy: stable and equitable economic growth
- What households as workers, consumers, savers, and taxpayers expect from the economy: good jobs, good products, good government
- Sources of productive employment: the centrality of investment in productive capabilities
- Roles of industries, organizations, and institutions in the operation of the economy
- Centrality of innovation to economic growth
- Under what conditions is economic growth stable and equitable?


CASE STUDY: Market Basket

2. Economists who have contributed to our understanding of productivity (January 30 and February 1) NEWS ITEM #2


➢ How these different figures in the history of economic thinking conceptualized the operation and performance of the productive economy?


Information on the thinkers covered in this section can be found on Wikipedia;


CASE STUDY: Penrose, Chandler, and the managerial revolution in America


3. What is productivity, and why does it matter? (February 6 and 8) NEWS ITEM #3

- Objectives of economic policy: Stable and equitable economic growth
- The historical record of stable and equitable and stable growth for the US economy
- International comparisons
- What drives the performance of the economy? Investment versus consumption


CASE STUDY: Profits without prosperity


4. Sources of productive employment (February 14 and 15) NEWS ITEM #4

- How do people get employed in the economy?
- Self-employment versus wage employment
- Employment in the government sector versus employment in the business sector
- Stable versus unstable employment: What is a “good job”?*
- Career employment on internal job ladders versus through interfirm labor mobility
- The relation between employment income and retirement income

Lazonick: Economics 1 Syllabus


CASE STUDY: Is the “gig economy” the future of work?

Lazonick, Sustainable Prosperity in the New Economy? chs. 2 and 3. (pdf)


5. The business enterprise (February 20 and 22) NEWS ITEM #5

- Fundamental importance of businesses in the economy
- Types of businesses, including the centrality of the large corporation
- By whom and for whom should corporations be governed?
- Have the employment-creating capabilities of corporations changed?
- Myths about the corporations that obstruct our understanding of how the economy operates and performs


**CASE STUDY: Apple Inc.**


6. The theory of the optimizing firm (February 27 and March 1) NEWS ITEM #6

- The theory of the “optimizing firm”
- The demand for products
- Elasticity of demand and segmented markets
- The distinction between goods and services: why is it important?
- How are goods and services related in the innovation process?
- What are the implications of the distinction/interaction between goods and services for the quality of employment?

KhanAcademy, “Marginal revenue and marginal cost” at https://www.khanacademy.org/economics-finance-domain/microeconomics/supply-demand-equilibrium


CASE STUDY: Optimizing subject to given constraints


7. The theory of innovative enterprise (March 6 and 8) NEWS ITEM #7

- The innovation process that generates higher quality, lower cost products than had previously been available
- Transforming technologies and accessing markets
- The innovating firm versus the optimizing firm
- Upward and downward sloping supply curves
- Demand (markets) and supply (technology) in the theory of innovative enterprise
- Firms and regions: loci of organizational learning; internal and external economies of scale


CASE STUDY: Carnegie Steel and economies of speed


Lazonick: Economics 1 Syllabus

Archive Service Center @ Pitt “Record #8 – Carnegie Steel’s Iron Clad Agreement,” at http://pittarchives.tumblr.com/post/83711121997/record-8-carnegie-steels-iron-clad-agreement

“Mr. Frick’s revelations,” New York Times, Feb. 15, 1900. (pdf)


William Lazonick, Competitive Advantage on the Shop Floor, Harvard University Press, 1990, chs. 7-9, and Appendix (“The Basic Analytics of Shop-Floor Value Creation”). (pdf)

8. Social conditions of innovative enterprise (March 20 and 22) NEWS ITEM #8

- Strategic control: who makes the important allocative decisions in the economy and what are their abilities and incentives to invest in innovation and job creation?
- Organizational integration: how and why do people interact with each other in the context of their employment, and what are the implications of these interactions for the innovation process and economic performance?
- Financial commitment: what are the sources of finance that can sustain investment in innovation, and the jobs that are integral to it, until such time as it generates financial returns?


CASE STUDY: US pharmaceuticals: Merck and Pfizer


Ken Jacobson and William Lazonick, “We stopped Pfizer’s tax dodge, now let’s end the buybacks,” INET Ideas & Papers, April 8, 2016, at https://ineteconomics.org/ideas-papers/blog/we-stopped-pfizers-tax-dodge-now-lets-end-the-buybacks

9. The unstable economy (March 27 and 29) NEWS ITEM #9

- The Old Economy business model and the New Economy business model
- Rationalization, Marketization, Globalization
What does “financialization” mean, and what forms does it take?
Why is it harmful to the operation and performance of the economy?
What types of government polices do we need to control financialization?
Drivers of the stock market: innovation, speculation, manipulation
Functions of the stock market: creation, control, combination, compensation, cash
The stock market and corporate financial behavior: executive pay and stock buybacks


CASE STUDY: IBM: From innovation to financialization

Lazonick, Sustainable Prosperity in the New Economy?, ch. 3.


**10. Financialization (April 3 and 5) NEWS ITEM #10**


**CASE STUDY:** Stock buybacks: Winners and Losers


**11. Globalization (April 10 and 12) NEWS ITEM #11**

- The difference between comparative and competitive advantage
- U.S. competition from Europe, Japan, China, and India
- Global flows of labor and capital
- Impacts of globalization on the attainment of stable and equitable growth in the United States


William Lazonick and Yin Li, “China’s Path to Indigenous Innovation,” September 2014 [pdf].
Lazonick: Economics 1 Syllabus


CASE STUDY: **Sweatshop economics**


Jim Keady, “Nike Sweatshops: Behind the Swoosh,” video at [https://www.youtube.com/watch?v=M5uYCWVfuPQ](https://www.youtube.com/watch?v=M5uYCWVfuPQ)


**12. What role for the state? Developmental, regulatory, or predatory (April 19 and 21)** NEWS ITEM #12

- Types of states: predatory, regulatory, developmental
- Are regulatory agencies predatory or development?
- Taxation: it purposes and uses
- How do different economic actors respond to changes in tax rules?


Lazonick: Economics 1 Syllabus

CASE STUDY: SEC: From regulator to promoter of the stock market


13: The inequitable economy (April 24 and 26)

- Facts on the distribution of income across time and space
- Why the distribution of income may become more equal or unequal
- The distinction between inequality versus inequity
- Value creation versus value extraction
- The growth of the financial sector as a factor in the growing inequality of income in the United States
- The changing role of the stock market in the economy
- Problems of corporate resource allocation and executive pay

“Income inequality: It wasn’t always this way, Economic Policy Institute, February 9, 2011: http://www.epi.org/economic_snapshots/entry/income_inequality_it_wasnt_always_this_way/


CASE STUDY: Black employment since the creation of the Equal Employment Opportunity Commission
