

College of Micronesia-FSM  
P. O. Box 159  
Kolonia, Pohnpei FM 96941

Course Outline Cover Page

Economy of Micronesia

SS 212 (rev. 11/00)

Course Title

Department and Number

**Course Description:**

The course is an in-depth exploration of the FSM economy with an emphasis placed on the development of a broad knowledge base as well as the research and analytical skills necessary for economic development policy planning.

Course Prepared by: Social Science

State Pohnpei -national campus

	Hours per Week		No. of Week	=	Total Hours	=	Semester Credits
Lecture	<u>3</u>	x	<u>16</u>	=	<u>48/16</u>	=	<u>3</u>
Laboratory	<u>        </u>	x	<u>        </u>	=	<u>        </u>	=	<u>        </u>
Workshop	<u>        </u>	x	<u>        </u>	=	<u>        </u>	=	<u>        </u>
					Total Semester Credits	=	<u>3</u>

**Purpose of Course:** Degree Requirement \_\_\_\_\_  
Degree Elective \_\_\_\_\_  
Certificate \_\_\_\_\_  
Remedial \_\_\_\_\_  
Other (workshop) \_\_\_\_\_

**Prerequisite Course(s):** SS 150, En 110  
\_\_\_\_\_  
\_\_\_\_\_

Spensin James  
Signature, Chairperson, Curriculum Committee

11/16/00  
Date Approved by Committee

SUSAN MOSES  
Signature, President, COM-FSM

12/5/00  
Date Approved by President

**Course Outline**  
**SS212 - Economy of Micronesia**

**Course Description**

This course is an in-depth exploration of the FSM economy with an emphasis placed on the development of a broad knowledge base as well as the research and analytical skills necessary for economic development policy planning

**General Objectives**

Understand and apply the basic principles of macroeconomics and microeconomics to an analysis of the FSM national and state economies

Demonstrate a detailed knowledge and understanding of the dynamics of the FSM private sector and public sector economies and how they interact.

Demonstrate a detailed knowledge and understanding of the various sub-sectors of the FSM economy including their performance, constraints and prospects for the future

Demonstrate the ability to perform economic analyses of the various sectors of the FSM economy and to make policy recommendations for their development or reform.

Demonstrate an understanding of the FSM national and state economic planning and development processes

**Specific Objectives**

**Unit 1- Introduction to Macroeconomics** (chapters 1&2)

Explain the concept of scarcity as it relates to land, labor, entrepreneurship and capital

Explain how the study of economics is basically a study of human choice.

Define macroeconomics

Define microeconomics

Explain how theories and models are used to help us understand economic phenomena

Explain how the ceteris paribus assumption and the confusion of association with causation can cause errors in economic thinking

Compare and contrast positive economics with normative economics

Explain the three fundamental economic questions Define opportunity cost

Define marginal analysis

Discuss the production possibilities curve

Explain the law of increasing opportunity costs

Discuss the utility of shifting the production possibilities curve

## **Unit 2 - Introduction to Microeconomics** (chapter 3)

Explain the law of demand and apply it to the local situation

Distinguish between the individual demand curve and the market demand curve

Distinguish between changes in quantity demanded and changes in demand

Discuss upward and downward shifts in demand and apply it to the local FSM situation

Discuss the nonprice determinants of demand

Explain the law of supply

Distinguish between changes in quantity supplied and changes in supply

Discuss the nonprice determinants of supply

Demonstrate the ability to correctly apply market supply and demand concepts of market, surplus, shortage and equilibrium price and quantity

## **Unit 3 The Public Sector** (chapter 16)

Explain how the factors of size and growth affect government expenditure patterns

Discuss typical government expenditure patterns and categories of expenditures.

Explain the various means by which government finance their budgets.

Discuss the various issues related to taxation including efficiency, equity, progressive taxes, regressive taxes and proportional taxes

Explain the public choice theory of government decision-making to allocate resources

## **Unit 4 - International Trade & Finance** (chapter 21)

Explain why nations need trade

Explain the effects of specialization on national and world economies

Define comparative advantage

Define absolute advantage

Discuss the benefits of and arguments in favor of free trade

Discuss the benefits of and arguments in favor of protectionism

Explain the concept of balance of payments

Discuss the ways in which exchange rates affect national and international economies

### **Unit 5 - Private Sector Management in the FSM** (2<sup>nd</sup> Economic Summit Report)

Discuss both the growth and contraction of various private sector enterprises in the FSM between 1986-2000

Characterize and discuss the present nature of the private sector in the FSM

Discuss the factors which limit private sector growth in the FSM including excessive government direction and intervention, large public sector employment, skill limitations, land tenure systems, variable transparency and efficiency, attitudes toward foreign investment, infrastructure and transportation, fuel costs

Discuss recent efforts to stimulate the FSM private sector including government downsizing and wage restraint, privatization, conducive regulatory environment, foreign investment, banking deregulation, land titling, business support and outreach

Discuss ideas for accelerating FSM private sector development in the future including more competitive markets, more efficient transactions, more effective public agencies, more efficient and cost effective infrastructure and commitment to economic reforms.

Discuss the performances, constraints and opportunities of the agriculture, fisheries and tourism sectors in the FSM.

### **Unit 6 - Public Sector Management in the FSM** (2<sup>nd</sup> Economic Summit Report)

Discuss the growth or contraction of the FSM economy between the periods of 1986-2000

Discuss the indicators used to determine economic growth or contraction including employment and wages, banking, fiscal performance, external debt and economic reform.

Discuss the key issues with FSM public sector management today including reduced reliance on foreign aid, revenue generation, delivery of public services, government interference in business, national and state fiscal prudence, improvement of government financial management and personnel management.

## **Course Contents**

### **Unit 1 Introduction to Macroeconomics**

Introduction to the economic way of thinking

Scarce resources and production

Land

Labor

Entrepreneurship

Capital

Economics as the study of scarcity and choice

Macroeconomics

Microeconomics

The methodology of economics

Theories

Models

Common mistakes in economic thinking

The ceteris paribus assumption

Association versus causation

Positive Economics

Normative economics

Production Possibilities and Opportunity Cost

Three fundamental economic questions

What to produce?

How to produce?

For whom to produce?

Opportunity Cost

Marginal analysis

The production possibilities curve

The law of increasing opportunity cost

Shifting the production possibilities curve

### **Unit 2 Introduction to Microeconomics**

Market supply and demand

The law of demand

Market demand Changes in quantity v.s. changes in demand

Nonprice determinants of demand

The law of supply

Changes in quantity supplied v.s. changes in supply

Nonprice determinants of supply

Market supply and demand analysis

### **Unit 3 The Public Sector**

Government size and growth  
government expenditure patterns  
financing government budgets

Taxation  
efficiency in taxation  
equity in taxation  
progressive taxes  
regressive taxes  
proportional taxes

Public choice theory  
majority rule problem  
special interest group effect  
rational voter ignorance  
bureaucratic inefficiency  
shortsightedness effect

### **Unit 4 - International Trade & Finance**

Why nations need trade  
the production possibilities curve revisited  
specialization without trade  
specialization with trade

Comparative and absolute advantage  
comparative advantage  
absolute advantage

Free trade versus protectionism  
protectionism  
embargo  
tariff  
quota

Arguments for protectionism  
infant industry argument  
national security argument  
employment argument  
cheap foreign labor argument  
free trade agreements

The balance of payments  
current account  
capital account  
international debt

Exchange rates

supply and demand of foreign exchange

Shifts in supply and demand of foreign exchange

tastes and preferences

relative price levels

real interest rates

relative incomes

impact of foreign exchange fluctuations

## **Unit 5 - Private sector management in the FSM**

Private Sector Development: Past, Present and Future

The current nature of the private sector in the FSM

Factors limiting private sector growth

excessive government direction & intervention

large public sector employment - upside-down economy

skill limitations

dependence on government financing over commercial finance

evolving land tenure, systems

variable transparency and efficiency in business

foreign investment barriers

variable infrastructure and transportation

fuel costs

Recent efforts to improve private sector growth

government downsizing and wage restraint

privatization and divestment of public enterprises

creating a conducive regulatory environment

changing foreign investment attitudes

passing foreign investment legislation

banking deregulation and support of commercial financing

progress in land titling

business support and outreach programs

Future actions for accelerating private sector development

more competitive markets

more efficient transactions

more effective public agencies and administration

more efficient and cost effective infrastructure more commitment to economic reforms

Sector Analyses

Agriculture

lack of market responsiveness by producers

unsuccessful government led production

inefficient and unprofitable coconut industry

numerous opportunities in domestic and regional export markets

## Fisheries

- high catch value but low value added in the FSM
- effects of Asian economic crisis on markets and competition
- employment opportunities for skilled and unskilled labor
- predominance of government investment in fisheries
- willingness to privatize but wary investors

## Tourism

- falling arrivals and low occupancy
- need for improved market responsiveness and a better product
- financial stress for hotels with loan and need for tight business management
- substantial employment opportunities but need for improved skills
- infrastructure and public support for tourism development
- air service constraints

## **Unit 6 – Public sector management in the FSM**

- The FSM National Economic Situation
- General Economic Performance - Gross Domestic Product
- Employment and Wages
- Money and Banking
- Fiscal Performance ,
- External Debt Management
- Economic Reform Progress

## Public Sector Management: Key Issues

- The first FSM economic summit
- Public sector reform program
- A comprehensive public sector management strategy
- A changing role for government in the FSM
- Public sector policy objectives

## **Textbooks**

Survey of Economics by Irvin Tucker West Publishing Company, 1996

Proceedings of the-2n<sup>d</sup> FSM Economic Summit Government of the Federated States of Micronesia, 1999

Statistical Yearbook of the Federated States of Micronesia Government of the Federated States of Micronesia, 1999

## **Method of Instruction**

- Lecture
- Discussion



Guest Speakers

**Method of Evaluation**

Unit Tests

Short Papers

Final Exam

**Attendance Policy**

The standard COM-FSM attendance policy applies to this course