Microeconomic principles 2010 introduces the "economic way of thinking" to the student. The economic problem, narrowly defined, which faces all societies is: What to produce? How to produce? and For Whom to produce? But economics is broader than this; it is really the study of wise decision-making in all areas of life. To draw a biological analogy: The "ecosystem" of microeconomics is competitive equilibrium, with supply and demand determining prices and quantities exchanged in each of a plethora of individual markets (interacting "forests"). The "trees" that make up each forest are the individual economic agents (households and firms, but other collections of people as well) whose behavior we shall study extensively. While this all may seem rather dry and unclear at this time, economics is hardly the "dismal science" it has been tagged as; rather I think you will find it live and exciting.

Administrative Details


Office: Economics 223 Hours: 2:00-3:30 MW and by Appt.
Phone: 492-7021

There will be two midterms and the final; an elaborate scheme (described in class) will be used to convert this information into a grade. The TAs will be responsible for grading in recitations (-, 0, or + grades) and this grade will determine grades for those on the margin (also as described in class).

Brief Course Outline and Reading Assignments (not a substitute for class notes!)

I. INTRODUCTION: THE NATURE OF ECONOMIC THOUGHT (Chap. 1)
   What is "economics?" Wise decisions in the face of scarcity. Science and "realism."
   Logical pitfalls. Scarcity implies choice which, in turn, implies opportunity costs.
   Graphs: production possibility frontier

II. BASIC PROBLEMS OF ECONOMIC ORGANIZATION (Chaps. 2, 3)

III. DEMAND AND SUPPLY (Chaps 4, 5)
   Demand, Supply, and Market Equilibrium (maximizing and coordinating). Elasticity.
   Applications. One reason why some don't like supply and demand.

IV. CONSUMER CHOICE AND DEMAND (Chap. 6, optional appendix to Chap. 6)
   Preference assumptions. Utility and the law of diminishing marginal utility. Rule of
   rational life. Can consumers do this (animal experiments)? From individual to
   market demand. Consumer surplus and the paradox of value.
   (first midterm after this material)
V. PRODUCER CHOICE AND SUPPLY (Chaps. 7, 8, optional appendix to Chap. 8)
   Business organization. The production function, marginal products, and the law of
diminishing marginal product. Time periods. Costs: Fixed, Variable, Total,
AVERAGE, and Marginal.

VI. THE FIRM IN PERFECT COMPETITION (Chap. 9)
   The abstract model assumptions. Three cases: profits, losses, shut-down. Market
supply. Time periods, again. Efficiency versus equity again.

VII. THE MONOPOLY FIRM (Chap. 10, portions of Chap. 20)
   Definition and bases for monopoly. When marginal revenue is not equal to price.
Efficiency and equity implications for monopoly. Price discrimination. Regulation of
monopoly.

IX. OTHER MARKET STRUCTURES (Chap. 11)
   (Go light on this--see class notes)
   (second midterm after this material)

X. INPUT MARKETS AND INCOME DISTRIBUTION (Chaps. 13, 14, 16)
   Marginal productivity theory. Compensating differentials. Discrimination. Land,
natural resources, and "economic rent." Capital, interest, and profits.

XI. MARKET FAILURE AND PUBLIC POLICY (Chaps. 17, 18(part), 21(part), 22(part))
   Externalities. Public goods (including income distribution). Public Choice Theory:
Will government do better? The market wins--but remember that giving the most of
what people prefer does not elevate those preferences...

XII. THE INTERNATIONAL ECONOMY (Chaps. 23(part), 24(part), 25(part), 26(part))
   Theory of comparative advantage. S&D analysis of trade and tariffs. Developing
countries. Exchange rates and the international financial system.
   (final exam--good luck!)