Content:

Microeconomic principles 2010 introduces you to the "economic way of thinking." The central fact that underlies economics is the fact of "scarcity." By this it is meant that our wants exceed the goods freely available from nature--hence choices must be made among the many things we want. This leads to the fundamental economic questions, narrowly defined, which face all societies: What to produce? How to produce? and For Whom to produce? But economics is really much broader in scope 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: Daily 10:50-11:30 (and by appointment)
Phone: 492-7021 (message machine)

There will be two midterms and the final; an elaborate scheme (described more fully in class) will be used to convert this information into a grade.

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

I. ECONOMIC WAY OF THINKING--HOW DOES THE WORLD "WORK?" (Ch. 1, 2)
   What is "economics?" Wise decisions in the face of scarcity. Science, "realism," and models. Logical pitfalls (fallacy of composition, post hoc ergo propter hoc, wishful thinking and secondary effects or law of unintended consequences). Scarcity implies choice which, in turn, implies opportunity costs. The "market" as one means of solving problems stemming from scarcity (spontaneous order versus hierarchy).

II. DEMAND AND SUPPLY (Chs 3, 4, 5)
   Demand, Supply, and Market Equilibrium (maximizing and coordinating). The
"shifts" versus "movements along" confusion clarified. Elasticity. Price controls. Applications (farm policy, rent controls, minimum wages, tax incidence, prohibition of goods). One reason why some don't like supply and demand. Inter-temporal resource allocation and the price system: interest, compounding, discounting and the role of entrepreneurs and speculators. The role of government--private market failure. Sources of public market failure.

IV. CONSUMER CHOICE AND DEMAND (Ch. 6, optional material, beginning p. 142) Note: we will do this material quite differently from the book. 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. Demand curve as willingness-to-pay. Consumer surplus and the paradox of value.

(first midterm--after this material)

V. PRODUCER CHOICE AND SUPPLY (Ch. 7, 8 class notes) Business organization. The production function, marginal products, and the law of diminishing marginal product. Time periods. Costs: Fixed, Variable, Total, Average, and Marginal.


VII. THE MONOPOLY FIRM (Ch. 10, portions of Ch. 12) Definition and bases for monopoly. When marginal revenue is not equal to price. Efficiency and equity implications for monopoly. Price discrimination. Regulation of monopoly.

VIII. OTHER MARKET STRUCTURES (Chs. 11) (Go light on this--see class notes)

(second midterm--rather late in course--after this material)

IX. INPUT MARKETS AND INCOME DISTRIBUTION (Chap. 13, 15--class notes; optional: Chaps 14, 16) Marginal productivity theory. Compensating differentials. Discrimination. Land, natural resources, and "economic rent." Capital, interest, and profits.

X. MARKET FAILURE AND PUBLIC POLICY (Chaps. 17, 18, 19--class notes) 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...


(final exam, last day of class: July 7--good luck!)