PRINCIPLES OF MICROECONOMICS

Fall 1996
Room: Geol 121
M,W,F: 2:00 - 2:50pm

Econ 2010
Sec. 200

Professor: Charles de Bartolome
Office Hours:
Recitation instructor:
Recitation time:
Recitation place:


Course description: Microeconomics is about what goods get produced and sold at what prices. The individual must decide what goods to buy, how much to save and how hard to work. The firm must decide how much to produce and with what technology. The course explores how "the magic of the market" coordinates these decisions. In addition, the course considers such questions as: Why is competition socially desirable? Is competition likely? How do firms behave in the absence of competition?

The course is an introductory course. No previous knowledge of economics is assumed. The student is, however, assumed to be able to solve simultaneous equations both graphically and algebraically.

Grading: There are two data collection exercises, two experiments, two midterms and a final exam. The grade of the student will be determined as: 10% Experiments, 30% First Midterm, 30% Second Midterm, and 30% Final. The data collection exercises are Pass/Fail.

Attendance at class: attendance at class is required. If you consistently miss class or recitation, you will be warned. If you continue not to attend after the warning, you fail the course.

Attendance at recitation: attendance at recitation is required. At the recitation, you are required to hand in your answers to the weekly problem-set. If you consistently do not do this or if your answers show no evidence of effort, you will be warned. If you ignore the warning, you fail the course.

Difference with other sections: I expect this section to go slower, cover fewer topics and put more emphasis on analysis than other sections.

Course outline: attached is a list of topics to be covered and likely dates.
WHAT IS ECONOMICS?
The role of markets.
The use of models.
Positive v normative economics.

Aug 28,30
THE BASIC MODEL
- rational agents.
- price-taking.
- property rights.
- opportunity set.
- trade-offs.
- marginal analysis.

Sept 4,6,9.
THE GAINS FROM TRADE
- absolute advantage and comparative advantage.
- gains from specialization.
- interdependence.

Sept 11,13,16,18.
LAW OF SUPPLY AND DEMAND
- the coordinating role of prices.
- individual demand curve.
- market demand curve.
- individual supply curve.
- market supply curve.
- equilibrium.
- the paradox of value.
- shifts in the demand curve: substitutes and complements.
- shifts in the supply curve.

Sept 20.
Applications of supply and demand
Inelastic = steep, elastic = flat.
Identification.
Price-ceiling and price-floors.

Sept 23,25.
Intertemporal markets
- interest rate as a price.
- present discounted value.

Sept 27.
CONSUMER CHOICE
Goods choice. The objective:
- utility and indifference curves
  as a measure of well-being.
- marginal utility.
- diminishing marginal utility.
- marginal benefit.

Sept 30.
FIRST MIDTERM
CONSUMER CHOICE Cont.
Oct 2,4,7,9
The constraint:
- budget constraint.
- derivation of the demand curve.
- "price = private marginal benefit" rule.
Every decision is a marginal decision.
Consumer surplus as a measure of welfare gain.

Oct 11,14.
Savings decision.
- interest rate as a price.
- trade-off: consumption now v. consumption later.
- do you save more as the interest rate increases?

Oct 16,18.
Labor supply decision
- labor supplied is leisure sold.
- wage as a price.
- trade-off: leisure v. consumption.
- labor supply curve.
- do you work harder if your wage increases?
- market labor supply.

FIRM CHOICES
Oct 21,23,25.
- production function, marginal product.
- cost structure: marginal and average cost.
- marginal revenue.
- "marginal revenue = marginal cost" rule.

COMPETITIVE FIRMS
Oct 28,30.
Output decision:
- "price = marginal cost" rule.
- entry and exit: "price = minimum average cost" rule.
- firm supply curve.
- market supply curve.

Nov 1
Nov 4.
SECOND MIDTERM
COMPETITIVE FIRMS cont

Output decision (cont):
- short run and long-run supply curves.
- accounting v. economic profits.

Nov 13, 15, 18.

Factor demands
- value of marginal product.
- "value of marginal product = factor price" rule.
- firm factor demand curve.
- market factor demand curve.

COMPETITIVE GENERAL EQUILIBRIUM

Nov 20, 22, 25.
Circular flow of funds.
- utility possibility frontier.
- exchange efficiency:
  "equal marginal benefit" rule.
- social cost = opportunity cost.
- First Fundamental Welfare Theorem.

IMPERFECT COMPETITION

Nov 27
- market structure.
Dec 2, 4.
- "marginal revenue = marginal cost" rule.
- barriers to entry.

Dec 6, 9.
- collusion.
- threat of entry.
- deterring competition

GOVERNMENT POLICY
TOWARDS IMPERFECT COMPETITION

Dec 11.
The problem: why imperfect competition is bad:
- consumer surplus loss.
- managerial slack.
- research and development issues.
The solution:
- regulation.
- stimulating competition.
- antitrust.
- curbing restrictive practices.