Spring 1996

Microeconomic Principles 2010–200

P. Graves

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: T-Th 2:30-4:00 (and by appointment)
Phone: 492-7021 (message machine)
e-mail: gravesp@spot.colorado.edu

Grading:

I have an unusual and complicated (but extremely fair!) grading system. There will be two midterms and a comprehensive final. On each multiple-choice exam enough points are added to everyone's bring the median score up to 75 (e.g. if the median for a particular exam is 68, 7 points will be added to each person's exam). Hence, doing well on a difficult exam, say getting a 96 when the median was 68 enables you to get over 100 points, in this example receiving a 103. Should the median for an exam be above 75, I do not subtract (such an outcome indicates either that you are part of an unusually smart or studious class or--more likely?--that I made the test too easy, hence it is my problem). After these adjustment points are added, I will calculate your course test grades as the largest number arising from the following alternative calculated scores:

"Score 1": .3(1st Mid Grade) + .3(2nd Mid Grade) + .4(Final Grade)
"Score 2": .4(2nd Mid Grade) + .6(Final Grade)
"Score 3": .4(1st Mid Grade) + .6(Final Grade)

Hence, if you "mess up" (or miss) either of the midterm exams (but not both), that test will automatically be dropped; the comprehensive final is weighted more heavily in this case. There will be no early exams or make-up exams, since they are difficult to make comparable
and this system does not penalize you for missing one exam in any event. Should you miss
an exam, come to my office and get a copy of it and take it under "test conditions," later
comparing your answers with those posted (you will know in this way how you would have
done, aiding in your study for the final). I will post the answers to midterm exams
immediately after giving them, and you can keep the midterm test booklet to get an
immediate (though "lower bound") estimate as to how you did. Bring a #2 pencil with you
to exams!

The University of Colorado does not allow me to award even the best of you with an
"A+," hence there is (unfortunately) little incentive to really learn the material of any
course, in particular this one. To overcome this difficulty--since I believe in creating an
incentive to really excel--I let anyone with an adjusted 98 or higher average on the two
midterms out of the final! [Note: even if you personally do not get out of the final, you
should cheer for those that do, since the median will be lower on the final, causing more
points to get added to everyone's score on this important test!].

I view attendance at either my lectures or the recitation sections as highly desirable,
but do not believe in penalizing those who feel otherwise. Yet those who attend and perform
well in recitation always want to feel that they are rewarded for doing so. The way I handle
this is to make the TA portion of the grade determine the grades of those on the "margin."
The TAs will be, by any system they view as fair and appropriate, assigning one of three
grades to your recitation performance in roughly equal proportions: +, 0, or -. If you are
on the margin (see below) the + moves you up, the minus moves you down, and the 0 does
neither. That is, you can have an 89 (normally a B+) and get either an A-, a B, or stay at
a B+; similarly, you could have a 91 (normally an A-) and get either an A, a B+, or stay at
an A-. As you can see, there may be substantial advantages to attending recitation and
striving in it--however, if you are think you know better how to allocate your time than I do
(a reasonable proposition, incidentally), you can be a risk-taker and "blow off" recitation
entirely. If you get a 93 you get the A; an 87 gets you a B; that is, you are not harmed, if
you are not on the "margin," by deciding not to go to recitation. Thus, we come to the final
course grade calculation:

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

I. ECONOMIC WAY OF THINKING--HOW DOES THE WORLD "WORK?" (B&S Ch. 1,2; MB&N Introduction and Chs. 1,2,3)
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). What, How, For Whom, and When? Consumer and firm goals and the spontaneous coordination provided by the competitive market. Rational choice. Property rights and incentives. Inputs and outputs. The gains from trade and comparative advantage. Efficiency (Pareto, Kaldor) and equity. Why economists disagree (theory, estimates, and values). Positive and normative economics (benefits and costs and their distribution). Introductory illustrations: Determinants of the number of children to have, minimum wages, progressive income taxation, international trade. Graphs: production possibility frontier. Philosophical issues (What is "value?").

II. DEMAND AND SUPPLY (B&S Chs. 3, 4, 5; MB&N Chs. 4, 5, 6, 7, 8, 9)

IV. CONSUMER CHOICE AND DEMAND (B&S Ch. 6, opt. 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 (B&S Ch. 7, 8; MB&N Chs. 10, 11, 12, 13, 14)

VI. THE FIRM IN PERFECT COMPETITION AND SUPPLY (B&S Ch. 9)

VII. THE MONOPOLY FIRM (B&S 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 (B&S Chs. 11)
(Go light on this--see class notes)
(second midterm--rather late in course--after this material)

IX. INPUT MARKETS, INCOME DISTRIBUTION, SOCIAL ISSUES (B&S Ch. 13, 15, opt. 14, 16; MB&N Chs. 15, 16, 17, 18)

X. MARKET FAILURE AND PUBLIC POLICY (B&S Chs. 17, 18, 19; MB&N Chs. 19, 20, 21, 22, 23, 24, 25, 26)
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... Public policy: car regulations, education, housing, cigarettes.

XI. THE INTERNATIONAL ECONOMY (B&S Chs. 21; MB&N Chs. 27,28,29)

(final exam, Tuesday May 14th 7:30-10:30 AM--good luck!)