

Course Outline – Microeconomics (EC2201)

Autumn Term 2009

Course Code and Title

Microeconomics EC2201

Lecturer

Prof Omer Moav

Aims

EC2201 is the second year core, compulsory course in microeconomic analysis and policy. The course addresses the behaviour of individuals and firms in the economy, examining issues such as individual optimisation, the behaviour of the firm in different market environments, exchange and general equilibrium. Applications to various markets such as the labour market will also be discussed as will be market failures in the presence of asymmetric information, externalities, and public goods.

Learning Outcomes

Upon completing the course, students should:

- Understand models of individual optimisation and their applications, being able to identify the key determinants of an individual's behaviour in a variety of circumstances.
- Understand the behaviour of firms in different market environments such as perfect competition, monopoly and oligopoly, and the factors which are important in shaping the decisions that firms make in each market environment.
- Understand applications and extensions to the models studied, and be able to explain how changing circumstances and new information influences the actions of the economic agents concerned.
- Understand the properties of competitive markets.
- Understand market failures and the role of government intervention.
- Be able to manipulate and solve diagrammatic and algebraic models of microeconomics.
- Understand the limitations of the models studied.

Course Delivery

The course will be delivered through two one-hour lectures and a one-hour seminar every week. Seminars will be based on problem sets which will be distributed to students one week in advance of the seminar.

Students are expected to prepare written answers to problem sets and be able to produce these at their seminars.

The lecturer and seminar leaders are available for consultation during advertised office hours or by prior appointment at other times.

Both lectures to be attended

Assessment

Assessment for EC2201 Microeconomics is based on a 3-hour unseen written examination in the Summer term (100%).

Further non-assessed work comprises an essay and tests during the Autumn and Spring terms. The dates for tests and essays are laid out in the current Student Handbook.

Exam Rubric

The exam rubric for the final examination in the summer term for EC2201 Microeconomics requires you to answer *two* required questions, plus a further *two* questions from a choice of *four*.

Reading

The main textbook for this course is:

Christopher Snyder and Walter Nicholson, *Microeconomic Theory: Basic Principles and Extensions*, 10th edition, Thomson, South-Western.

Multiple copies of this book are available in the Bedford Library. However, much of the content of the course will closely follow that of this textbook and so students are strongly encouraged to buy their own copy.

The following textbooks are also useful. Schotter's book follows a less traditional path and provides interest insights beyond the standard curriculum. Varian's book is a classic. Morgan's book focuses on applications to European economics. Besanko and Braeutigam provide a useful reader friendly reference with many copies available in the Bedford Library.

- **Andrew Schotter (2001), *Microeconomics: A Modern Approach*, 3rd edition, Addison Wesley.**
- **Hal R. Varian (2003), *Intermediate Microeconomics: A Modern Approach*, 6th edition, Norton.**
- **Wyn Morgan, Michael Katz & Harvey Rosen (2006), *Microeconomics*, European Edition, McGraw-Hill.**
- **David Besanko and Ronald R. Braeutigam (2005), *Microeconomics*, 2nd edition, Wiley.**

Weekly Timetable – Autumn Term

The course will roughly follow this timetable

Week 1: Registration

Week 2 & 3: Introduction; Mathematical Review

Reading: Snyder & Nicholson, Chapters 1 & 2
(Besanko & Braeutigam, Chapters 1,2 & Math. Appendix.)

By the end of this unit, students should:

- Understand the scope of microeconomics.
- Understand the concept of an economic model.
- Be familiar with demand and supply curves
- Understand the concept of a market equilibrium
- Understand the idea of comparative statics
- Be familiar with constrained optimization.
- Review the necessary mathematical tools.
- Be familiar with the concept of elasticity of demand and supply

Week 4: Consumer Preferences and Utility

Reading: Snyder & Nicholson, Chapter 3
(Besanko & Braeutigam, Chapter 3)

By the end of this week, students should:

- Be familiar with the assumptions economists make about the preferences of consumers
- Understand how preferences can be represented by utility functions
- Be aware of the relation between utility and indifference curves
- Be able to calculate the marginal rate of substitution
- Be familiar with important special types of utility functions

Week 5: Utility Maximization and Choice

Reading: Snyder & Nicholson, Chapter 4
(Besanko & Braeutigam, Chapter 4)

By the end of this week, students should:

- Be familiar with the consumer's budget constraint
- Understand how the budget constraint changes with changes in prices and income
- Be able to determine the optimal consumption bundle given a budget constraint
- Be familiar with the consumer's expenditure function

Week 6: Demand, income and substitutions effects, and Consumers' Welfare

Reading: Snyder & Nicholson, Chapter 5, pages 141-154, 159-161, 165-173, and chapter 6 pages 182-187

(Besanko & Braeutigam, Chapter 5)

By the end of this week, students should:

- Understand how a consumer's demand changes with prices and income
- Understand how the effect of a change in prices can be decomposed into income and substitution effects
- Be able to distinguish between normal good, inferior goods and Giffen goods
- Be familiar with the concept of consumer surplus
- Understand simple applications of consumer analysis.
- Be familiar with the idea of revealed preferences

Week 7: READING WEEK

Week 8: The Theory of Demand and Consumers' Welfare (cont.)

Week 9: Production Functions

Reading: Snyder & Nicholson, Chapter 9, pages 295-299, 302-309 (without the n-input case and without CES).

(Besanko & Braeutigam, Chapter 6)

By the end of this week, students should:

- Be familiar with production functions
- Understand the average and marginal product of inputs
- Be familiar with the concepts of isoquants and the marginal rate of technical substitution
- Understand the idea of returns to scale
- Understand the idea of elasticity of substitution

Week 10: Cost Functions

Reading: Snyder & Nicholson, Chapter 10, pages 323-334, 244-351.
(Besanko & Braeutigam, Chapter 7 & 8)

By the end of this week, students should:

- Be familiar with the concept of opportunity costs
- Understand the effects of changes in input prices
- Be able to derive average and marginal cost curves and understand their
- Be able to find the cost minimizing input combination in the short-run and in the long-run relation
- Understand the difference between fixed and variable costs

Week 11: Profit Maximization and Supply

Reading: Snyder & Nicholson, Chapter 11, pages 358-361, 365-367
(Besanko & Braeutigam, Chapter 8)

- Understand the connection between marginal cost and profit maximization
- Understand marginal revenue and its role in profit maximization
- Understand price-taking behaviour
- Understand the supply of a firm in the short run and long run
- Be familiar with the concepts of economic rent and producer surplus

Week 12: Competitive Markets – Partial Equilibrium

Reading: Snyder & Nicholson, Chapter 12, pages 391-403, 406-411, 419-420, 422, 428-429
(Besanko & Braeutigam, Chapter 9)

By the end of this week, students should:

- Be familiar with the characteristics of perfectly competitive markets and their implications
- Be familiar the short-run market supply curve
- Understand the market price and Understand how equilibrium in a good market is determined
- Understand comparative statics
- Be familiar with the long run market supply
- Be familiar with the welfare cost of price controls and trade restrictions