

Course ECON 1001: ECONOMICS 2009-10

Aims and objectives of the Economics 1001 course (Term 2: Microeconomics).

Aims:

The Economics 1001 microeconomics course provides an analytical introduction to the core concepts of modern microeconomics for students on the Specialist Economics degree (L100) and the joint degrees in Economics and Geography and Philosophy and Economics. As such, the course is intended to provide the foundation for students who will be taking the second year core micro course (ECON 2001), rather than being a stand-alone introduction.

Objectives:

On successfully completing the ECON 1001 course students should:

- Be familiar with the majority of the core concepts in modern microeconomics and able to relate these to a range of applications in the real economy.
- Be able to apply these concepts, along with some elementary mathematical techniques acquired on this and other courses, to solve analytical/numerical economic problems.
- Be well-placed to make the transition to the more advanced analysis of the core concepts and methods they will encounter on the second year of the degree course.

Term 2 2009-10. MICROECONOMICS COURSE OUTLINE AND READING LIST

Course Lecturer:

Dr. Donald Verry
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Office Hour: Wednesdays 11.15-12.30.

ECON1001 on Moodle. How to get there: Go to ECON1001 on the Departmental web site and you will find the link. Alternatively, you can log in to Moodle directly and select this course.

Teaching:

Formal teaching is in the form of lectures and classes.

Lectures (10 x 2 hr sessions):

Wednesdays 9-11, Christopher Ingold Auditorium

Demonstration Lectures (worked problems, 5 per term)

Mondays 11-12, Christopher Ingold Auditorium

These will be held on the following dates : January 25th, February 8th,
March 1st, March 15th, March 22nd.

You will be given problems a couple of days in advance (including selections from past exam papers) and the solutions will be worked in the demonstration lecture.

Classes and Coursework.

You will have **eight** ECON1001 classes per term. Your class teacher will set coursework; **four** pieces of coursework will be marked (per term). Attendance and submission of coursework is compulsory. Details will be circulated separately.

Assessment:

Examination:

ECON 1001 is examined in a three-hour paper during the main exam period (April-May). The pass mark is 40%. Last year's paper is available as a link on the course page. The basic format (but not the questions!) will be unchanged. Your ECON 1001 result will count towards your final degree classification.

To be permitted to sit the end of year examination students must have met the

Course requirements

To meet course requirements you must have a satisfactory record of class attendance and coursework submission. College guidelines state that students attending less than 75% of classes will not count as having met course requirements and therefore may be ineligible to sit the final exam. If you have legitimate reasons for non-attendance (e.g. medical), documentation is normally required. You should inform Viv Crockford and supply the documentation to her.

COURSE OUTLINE.

The course concentrates on the basic concepts and principles of microeconomics. Although I will discuss some real world applications, there is not be time to go into these in any depth (the course ECON 1002 deals with applications). But microeconomics *is* useful for understanding real world problems. Therefore, in order not to get an unbalanced view of the subject it is *essential* that you supplement the lecture material with reading in the textbook (which has been selected for its wealth of applications) and other suggested reading. This will both strengthen your understanding of the theory and help you to see the point of it.

The course outline includes many of the standard topics in introductory microeconomics (although some basic topics, such as risk and uncertainty, are left until next year's ECON 2001 course). Those of you with A-level Economics may have covered similar topics. There *will* be some overlap; but be warned; this course is definitely *not* a repeat of A-level Economics. In the past some students have learned this the hard way!

Not all topics in the following outline will be given equal weight in lectures. Time does not permit. However, with the aid of the problem sets you will do in your compulsory weekly classes and by supplementing the lectures with your own study of an appropriate text you should become familiar with all the basic material. *It cannot be emphasised too strongly that you are expected to devote real effort to the class exercises and to do substantial supplementary reading; attending lectures is necessary but not sufficient.*

- 1. Introduction.** Course background and arrangements. The use and structure of economic models. The need for abstraction/simplification. The agents. Motivation. Constraints. Equilibrium. Comparative statics.
- 2. Comparative advantage and the gains from trade.** Production technology. The production possibility frontier; attainable and unattainable outcomes. Efficient and inefficient outcomes. Opportunity costs. Absolute advantage. Comparative advantage. Gains from trade. Prices and trade. Historical background. Extensions.
- 3. Supply and Demand Models –I.** Movements along a demand curve *versus* shifts of whole curve. Responsiveness of demand to price. Own price elasticity of demand. The relationship between elasticity and total expenditure (revenue). Determinants of price elasticity of demand. Other elasticity measures. Consumer and producer surplus.
- 4. Supply and Demand Models—II Equilibrium and Applications.** The equilibrium concept treated verbally, diagrammatically and mathematically. Comparative statics (effects of shifts of supply and/or demand curves). Applications: Price ceilings and price floors. Sales taxes and their incidence.
- 5. Consumers and demand.** Consumers' tastes and preferences. Indifference curves. Utility. The budget set. Consumer equilibrium. Effects of income and price changes; Engel curves for normal and inferior goods, demand curves. Income and substitution effects. Application to labour supply. From individual to market demand.
- 6. Production and Cost.** The production function. Isoquants. Technical efficiency. Average and marginal product. Diminishing returns. Returns to scale. Opportunity cost. Short and long run costs. Average and marginal costs. Duality between cost and production. Cost minimisation. Economies of scale. Costs for firms with multiple products.
- 7. Business Decisions and Market Structure.** The perfectly competitive framework and why we use it. Profit maximising decisions for perfectly competitive firms. Barriers to entry. Short and long run supply. Pricing with market power. Pure monopoly. Welfare effects of monopoly. Price discrimination. Bundling. Antitrust policy. Oligopoly and other forms of imperfect competition. Simple game theory.

8. **Factor markets.** The supply of factors of production in the short run and the long run. Marginal productivity theory of factor demand in the short run and the long run. Equilibrium in competitive factor markets. Economic rent. Monopsony power in labour markets. Efficiency wages and incentive payments.
9. **Externalities and Public Goods.** The benefits of markets. Market failures. Externalities and common resources. Public goods. Government intervention

If time permits, one or more of the following supplementary topics will be covered (they will not be in the exam if they are not covered in lectures).

10. **Asymmetric information.** The market for lemons. Moral hazard and adverse selection.
11. **Inter-temporal Decisions.** Present value (discounting). Consumption over time. Investment decisions when returns spread over time.
12. **Uncertainty.** How do individuals adapt their behaviour to the pervasive uncertainty they face in their economic lives? Introduction to risk-aversion and expected utility maximisation. Applications: tax evasion, insurance.
13. **Behavioural Economics -- how rational are economic agents?** Recent challenges to the assumptions of rationality that forms the basis of consumer and firm behaviour in standard neoclassical microeconomics.

READING.

A. Textbooks.

The text I currently recommend is:

Jeffrey M. Perloff *Microeconomics: Theory and Applications with Calculus* (2008) published by Pearson/Addison Wesley . This book is subsequently referred to as **PE**. The calculus version is new. Previous editions used calculus more sparingly. While I would prefer you to use the new version, it is not absolutely essential. Previous versions of Perloff also cover the essential material, but you may need to supplement the material with a little mathematics from the lectures.

You could also consult a slightly more advanced text (which is used in year 2)

Hal Varian, *Intermediate Microeconomics: A Modern Approach*. (Norton, currently on its 7th edition but any recent edition would do). This book is subsequently referred to as **VA**.

PE is an excellent book but it is not the simplest microeconomics text on the market. Some parts of it go beyond the syllabus of this course. **VA** is a little more advanced and more “bare bones” i.e. it is more analytical; there is less emphasis (but still some) on real world applications and case studies. Those who have not done any economics before, don’t worry! The lectures will begin from scratch. No prior knowledge will be assumed. However, the lectures will progress quite rapidly. Some students, whether or not they have A-level Economics may wish to use a genuinely introductory text in conjunction with **PE**. There are now literally hundreds of such introductory economics textbooks on the market. Many of them are excellent but few, despite the claims of their authors and publishers, are truly novel, innovative or radical. Any of the following well-established market leaders would make a satisfactory supplementary text for this course:

- D. Begg, S. Fischer and R. Dornbusch, *Economics* (**BFD**)
- R. G. Lipsey and K.A. Chrystal *Principles of Economics* (**LC**)
- P. Samuelson and W. Nordhaus, *Economics* (**SN**)
- W. Baumol and A. Blinder, *Economics* (**BB**)
- M. Parkin and D. King *Economics* (**PK**)
- J. Sloman *Economics* (**JS**)
- J.E. Stiglitz *Economics* (**ST**)
- P. Krugman and R. Wells *Microeconomics* (**KW**)

I recommend that you purchase **PE** or **VA**. If you can afford it, you may also wish to buy a copy (new or second hand depending on your finances) of one of the supplementary texts. **SN**, **BB** and **ST** and **KW** are American texts (as is **PE**). For microeconomics this does not matter much. However, if you want more UK background, and/or if you have not studied economics before, a recent edition of **BFD** (new eighth edition now available) may be a good choice for your backup.

If you are having difficulty with the course you should stick to **PE** and a recent edition of one of the elementary texts listed above. For those who are coping comfortably with the course and wish to study some slightly more advanced material, the following may be consulted occasionally

- D. McClosky, *The Applied Theory of Price*
- D. Laidler and S. Estrin, *Introduction to Microeconomics*
- John D. Hey *Intermediate Microeconomics*

In all cases it is preferable to use the latest edition; textbooks improve over time and incorporate more up-to-date examples and applications. However, any recent edition will suffice for most purposes.

B. Supplementary Reading.

For broadening your horizons:

- Backhouse, Roger *The Penguin History of Economics*
- Blinder, A. *Hard Heads, Soft Hearts*

Coyle, D *The Weightless World*
 Dixit, A. and Skeath, S. *Games of Strategy* (Although Game Theory is only a relatively small part of this course I would recommend this book: stimulating and fun).
 Friedman, M. *Capitalism and Freedom*
 Galbraith, J.K. *The New Industrial State*
 Heilbroner, R. *The Worldly Philosophers*
 Hutton, Will *The State We're In: Why Britain is in Crisis and How to Overcome It*
 Kay, John *The Truth About Markets*
 Krugman, P *The Age of Diminished Expectations*
 Krugman, P *The Accidental Theorist*
 Levitt, S. and Dubner, S. *Freakonomics* (somewhat over-hyped in my opinion but quite fun).
 McMillan, John *Reinventing the Bazaar* (excellent)
 Mansfield, E. *Microeconomics: Selected Readings*
 Meade, J. *The Intelligent Radical's Guide to Economic Policy*
 Smith, A. *The Wealth of Nations*

An article, which is (intelligently) critical of the "mainstream" approach followed in this course, is: Bowles, S (1998) "Endogenous Preferences: The Cultural Consequences of Markets and Other Economic Institutions" *Journal of Economic Literature* Vol. XXXVI (March). While parts of this article refer specifically to the section of the course on consumption, it is probably best read at the end of the course. Bowles has recently published *Microeconomics: Behaviour, Institutions and Evolution* (2004, Russell Sage Foundation) which offers a more comprehensive alternative to mainstream neoclassical microeconomics. It is rather advanced but you may find parts interesting and accessible. Two other dissenting/radical voices:

Marglin, Stephen *The Dismal Science* (2008, Harvard University Press)
 Waldfogel, Joel *The Tyranny of the Market* (2008, Harvard University Press)

And, for those with access to the Internet you may enjoy the following article, which examines some of the economic implications of "the information economy":

J. Bradford De Long and A. Michael Froomkin (1998) "The Next Economy"
http://econ161.berkeley.edu/Econ_Articles/newecon.htm

The use and teaching of game theory (article by AK Dixit)
["Restoring Fun to Game Theory."](#)

Examination.

Last year's examination paper can be accessed via a link on my Course Page. I will try to cover the microeconomics questions in Section One of the paper (i.e. questions 1-6) in the Demonstration Lectures.