

UNIVERSITY OF HAWAII AT MANOA
Department of Economics

ECON 130 (003)
Principles of Economics (Micro)

Rev. 08/26/03

Semester: Fall 2003
Lecture: TR 1:30-2:45 PM
Architecture (ARCH) 205

Teaching Assistant: Jaclyn "Jackie" Lindo
Office: Saunders Hall, Room 538
Office Hours: TR 11:30 AM - 1:15 PM
Phone: 956-8347
E-mail: lindo@hawaii.edu

Instructor: Gerard "Jerry" RUSSO
Office Hours: TR 9:00-11:00 AM
or by appointment
Office: Saunders Hall, Rm 515B
Phone: 956-7065
E-mail: russo@hawaii.edu

COURSE DESCRIPTION: This course examines how resources are allocated through market mechanisms. Students are trained to think like economists and analyze markets and other economic phenomenon with economic models. Topics include: supply and demand analysis; theory of consumer demand; theory of the firm including production and costs, perfect competition, monopoly, monopolistic competition and oligopoly; and public policy analysis of various issues including, but not limited to, excise taxation, externalities and market structure. The analytical skills required for successful completion of this course are elementary mathematical and graphical ability. Strong intuition and verbal skills can be partial substitutes for technical ability.

PREREQUISITE: None

TEACHING METHODOLOGY: Primarily lecture with some discussion.

TEXT (required): Mankiw, N. Gregory, *Principles of Microeconomics*, 3rd edition, Thomson South-Western, 2004.

STUDY GUIDE (optional): Hakes, David R., *Study Guide to Accompany Principles of Microeconomics*, by N. Gregory Mankiw, 3rd edition, Thomson South-Western, 2004.

GRADE DETERMINATION: Grades will be based upon 2 midterm exams and a final exam weighted in the following fashion:
Mid-term exam #1 (09/25/2003) 30% (60 questions)

Mid-term exam #2 (11/04/2003)	30% (60 questions)
Final exam (12/18/2003)	<u>40% (80 questions)</u>
TOTAL	100% (200 questions)

Examinations will consist of multiple choice questions. Examinations are closed-note, closed-book. Please bring official University of Hawaii picture identification on examination days. Please bring several sharpened number two pencils. Calculators are permitted. Dictionaries are not permitted

PLEASE NOTE: Attendance at all examinations is mandatory. No make-up examinations will be offered under any circumstances. Students who do not sit for an exam will receive zero (0) points and a “F” letter grade on that examination. This will adversely affect the students’ course grade. Students who miss any of the above scheduled examinations are advised to withdraw from the course at their earliest opportunity.

TENTATIVE COURSE SCHEDULE

<u>Reading Assignment</u>	<u>Topic</u>	<u>Date</u>
Chapter 1, pp. 1-18. Chapter 2, pp. 19-44.	<u>LECTURE 1:</u> Introduction Fundamental Principles of Scarcity and Choice Economic Methodology Partial Equilibrium Analysis vs. General Equilibrium Analysis Model Building: Equilibrium Analysis Optimization Analysis Positive vs. Normative Economics Microeconomics vs. Macroeconomics Mathematics and Graphics in Economics Economic Goals of Society Growth Full Employment Equity Efficiency Stability Economic Resources: Land Labor Capital Entrepreneurial Ability Technical Efficiency vs. Allocative Efficiency Efficient Resource Allocation	Tuesday, August 26, 2003
Chapter 3, pp. 45-59.	<u>LECTURE 2:</u> Introduction (continued): Economic Methodology Production and Exchange: Production Possibilities Frontier (PPF) Opportunity Cost	Thursday, August 28, 2003
	<u>LECTURE 3:</u> Production and Exchange (continued): Comparative Advantage Absolute Advantage	Tuesday, September 2, 2003

Gains from Trade

Chapter 4,
pp. 63-88.

LECTURE 4:
Supply and Demand Analysis:
Determinants of Demand
 Prices
 Income
 Tastes
 Expectations
Normal Goods
Inferior Goods
Complementary Goods
Substitute Goods
Determinants of Supply
 Output Prices
 Input Prices
 Technology
 Weather
 Expectations

Thursday, September 4, 2003

LECTURE 5:
Supply and Demand Analysis (continued):
 Market Equilibrium
 Price Ceilings and Price Floors
 Economic Surpluses and Economic Shortages
 Comparative Static Analysis

Tuesday, September 9, 2003

Chapter 5,
pp. 89-112.
Chapter 6,
pp.113-133.

LECTURE 6:
Supply and Demand Analysis (continued):
Elasticities
 Elasticity (sensitivity, responsiveness)
 Price Elasticity of Demand
 Relationship to Total Revenue
 Substitutability - The Key to Elasticity
 Measurement - Arc Elasticity vs. Point Elasticity
 Income Elasticity of Demand
 Cross-Price Elasticity of Demand
 Price Elasticity of Supply

Thursday, September 11, 2003

Chapter 7,
pp. 137-158

LECTURE 7: Tuesday, September 16, 2003
Supply and Demand Analysis (continued):
Willingness-To-Pay as a Measure of Social Welfare
Consumer Surplus and Producer Surplus
The Demand Curve: A Measure of Marginal Social Benefit
The Supply Curve: A Measure of Marginal Social Cost

Chapter 8,
pp.159-174

LECTURE 8: Thursday, September 18, 2003
Application: The Incidence of Excise Taxes

Chapter 9,
pp. 175-199

LECTURE 9: Tuesday, September 23, 2003
Application: International Trade

REVIEW SESSION

Date: TBA

Time: TBA

Room: TBA

LECTURE 10: **Thursday, September 25, 2003**
MIDTERM EXAM #1
60 Multiple Choice

Chapter 21,
pp. 453-478.

LECTURE 11: Tuesday, September 30, 2003
Modeling Consumer Behavior
Consumer Theory:
Budget Lines
Prices and Income
Revealed Preference
Rationality

Non-satiation ("more is preferred to less")
Dominated Region
Preferred Region

LECTURE 12: Thursday, October 2, 2003
Consumer Theory (continued):
Application: Simultaneous Income and Relative Price Changes with
Possible Consumer Responses Delineated via Revealed
Preference

LECTURE 13: Tuesday, October 7, 2003
Consumer Theory (continued):
Preferences, Tastes
Utility Theory
Utility Functions
Cardinal Utility vs. Ordinal Utility
Indifference Curves
Application: Transfers in Cash vs. Transfers in Kind

LECTURE 14: Thursday, October 9, 2003
Consumer Theory (continued):
Derivation of a Demand Curve
Income and Substitution Effects
Giffen Goods

LECTURE 15: Tuesday, October 14, 2003
Consumer Theory (continued):
Derivation of a Demand Curve (continued)
Income and Substitution Effects (continued)
Giffen Goods (continued)

Chapter 13,
pp. 267-288.

LECTURE 16: Thursday, October 16, 2003
Theory of the Firm: Production
Production Functions
Total Product
Average product
Marginal Product

Technical Efficiency
Stages of Production

LECTURE 17: Tuesday, October 21, 2003
Theory of the Firm: Duality
The Relation Between Product Curves and
Cost Curves

LECTURE 18: Thursday, October 23, 2003
Theory of the Firm: Cost Curves
Variable Costs
Fixed Costs
Sunk Costs
Opportunity Cost
Total Cost
Total Fixed Cost
Total Variable Cost
Marginal Cost
Average Total Cost
Average Variable Costs
Short Run Cost Curves
Long Run Cost Curves
Economies of Scale
Economies of Scope

Chapter 14,
pp. 289-311.

LECTURE 19: Tuesday, October 28, 2003
Theory of the Firm: Perfect Competition
Many Firms
Price Taking Behavior
Homogeneous Product
Free Entry and Exit
Economic Profits vs. Normal Profits
Opportunity Costs
Profit Maximization
Total Revenue
Average Revenue
Marginal Revenue
The Individual Firm in Equilibrium

LECTURE 20: Thursday, October 30, 2003

Perfectly Competitive Industry:

Short-Run Supply Curve of the Firm

Short-Run Supply Curve of the Industry

Long-Run Equilibrium for the Firm

REVIEW SESSION

Date: TBA

Time: TBA

Room: TBA

LECTURE 21: **Tuesday, November 4, 2003**

MIDTERM EXAM #2

60 Multiple Choice

LECTURE 22: Thursday, November 6, 2003

Perfectly Competitive Industry (continued):

Long-Run Supply Curve for the Industry

Increasing Cost Industry

Constant Cost Industry

Decreasing Cost Industry

Welfare Implications of Competitive Market Structure

Chapter 15,
pp. 313-344.

LECTURE 23: Thursday, November 13, 2003

Theory of the Firm: Monopoly

One Firm

Price Making Behavior

Homogeneous Product

Barriers to Entry

Profit Maximization

Revenue (Sales) Maximization

Welfare Implications of Monopoly Pricing

LECTURE 24: Tuesday, November 18, 2003

Monopoly (continued):

Price Discrimination

Arbitrage
1st Degree Price Discrimination (Perfect)
2nd Degree Price Discrimination
3rd Degree Price Discrimination
Equity and Welfare Implications
Natural Monopoly

Chapter 17,
pp. 373-387.

LECTURE 25:

Thursday, November 20, 2003

Theory of the Firm: Monopolistic Competition
Many Firms
Price Taking Behavior
Differentiated Products
Free Entry and Exit
Advertising

Chapter 16,
pp. 345-372.

LECTURE 26:

Tuesday, November 25, 2003

Theory of the Firm: Oligopoly
Few Firms
Price Making Behavior
Homogeneous or Differentiated Products
Barriers to Entry
Kinked Demand Curve Model
Price Leadership
Dominant Firm Model
Game Theory
Dominant Strategy
Pure Strategy
Mixed Strategy
Nash Equilibrium
Prisoners' Dilemma

Chapter 18,
pp. 391-410.

LECTURE 27:

Tuesday, December 2, 2003

Factor Markets: Labor
Competitive Model
Derived Demand for Labor
Value of the Marginal Product (VMP)

Marginal Revenue Product (MRP)

Chapter 19,
pp. 411-428.

LECTURE 28:
Factor Markets: Labor
Supply of Labor
Wages
Average Factor Cost
Marginal Factor Cost
Backward Bending Supply

Thursday, December 4, 2003

LECTURE 29:
Labor Markets (continued)
Imperfect Labor Markets
Monopsony
Unions
Bilateral Monopoly
Countervailing Power
Welfare Implications of Union Wage Policies
The Theory of the Second-Best

Tuesday, December 9, 2003

Chapter 11,
pp. 223-239.

LECTURE 30:
Market Failure:
Public Goods
Free-Rider Problem

Thursday, December 11, 2003

Chapter 10,
pp. 203-222.

Market Failure (continued):
Externalities
Coase Theorem
Corrective Taxation
Pollution Rights
Polluting Monopolists and the Theory of Second-Best

REVIEW SESSION

Date: TBA

Time: TBA

Room: TBA

FINAL EXAM

Thursday, December 18, 2003

12:00-2:00 PM

ARCH 205