

**UNIVERSITY OF HAWAII AT MĀNOA**  
**Department of Economics**

**ECON 130 (Section 005)**  
**Principles of Economics (Micro)**

Rev. 08/17/04

Semester: Fall 2004  
Lecture: TR 10:30-11:45 AM  
Crawford Hall 105

Teaching Assistant: Jaclyn “Jackie” Lindo  
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Instructor: Gerard “Jerry” RUSSO  
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**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*, 3<sup>rd</sup> edition, Thomson South-Western, 2004.

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

**GRADE DETERMINATION:** Plus/minus grades will be based upon, class attendance 2 midterm exams and a final exam weighted in the following fashion:  
Class Attendance 10.0% (20 points)

Mid-term exam #1 (09/23/2004)	27.5% (55 points)
Mid-term exam #2 (11/09/2004)	27.5% (55 points)
Final exam (12/14/2004)	<u>35.0% (70 points)</u>
TOTAL	100.0% (200 points)

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. Letter grades are assigned on the University of Hawaii plus/minus grading system. Class attendance is required. Students unable to attend the above lecture schedule should withdraw immediately.**

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 24, 2004
Chapter 3, pp. 45-59.	<u>LECTURE 2:</u> Introduction (continued): Economic Methodology Production and Exchange: Production Possibilities Frontier (PPF) Opportunity Cost	Thursday, August 26, 2004
	<u>LECTURE 3:</u> Production and Exchange (continued): Comparative Advantage Absolute Advantage	Tuesday, August 31, 2004

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 2, 2004

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

Tuesday, September 7, 2004

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 9, 2004

Chapter 7,  
pp. 137-158

LECTURE 7: Tuesday, September 14, 2004  
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 16, 2004  
Application: The Incidence of Excise Taxes

Chapter 9,  
pp. 175-199

LECTURE 9: Tuesday, September 21, 2004  
Application: International Trade

REVIEW SESSION

Date: TBA

Time: TBA

Room: TBA

LECTURE 10: **Thursday, September 23, 2004**  
**MIDTERM EXAM #1**  
55 Multiple Choice

Chapter 21,  
pp. 453-478.

LECTURE 11: Tuesday, September 28, 2004  
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, September 30, 2004  
Consumer Theory (continued):  
Application: Simultaneous Income and Relative Price Changes with  
Possible Consumer Responses Delineated via Revealed  
Preference

LECTURE 13: Tuesday, October 5, 2004  
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 7, 2004  
Consumer Theory (continued):  
Derivation of a Demand Curve  
Income and Substitution Effects  
Giffen Goods

LECTURE 15: Tuesday, October 12, 2004  
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 14, 2004  
Theory of the Firm: Production  
Production Functions  
Total Product  
Average product  
Marginal Product  
Technical Efficiency  
Stages of Production

LECTURE 17: Tuesday, October 19, 2004

Theory of the Firm: Duality  
The Relation Between Product Curves and  
Cost Curves

LECTURE 18:

Thursday, October 21, 2004

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 26, 2004

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 28, 2004

Perfectly Competitive Industry:

Short-Run Supply Curve of the Firm  
Short-Run Supply Curve of the Industry

Long-Run Equilibrium for the Firm

LECTURE 21: Thursday, November 4, 2004  
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

REVIEW SESSION

Date: TBA  
Time: TBA  
Room: TBA

LECTURE 22: **Tuesday, November 9, 2004**  
**MIDTERM EXAM #2**  
55 Multiple Choice

Chapter 15,  
pp. 313-344.

LECTURE 23: Tuesday, November 16, 2004  
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: Thursday, November 18, 2004  
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:

Tuesday, November 23, 2004

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 30, 2004

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:

Thursday, December 2, 2004

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:

Tuesday, December 7, 2004

Factor Markets: Labor

Supply of Labor

Wages  
Average Factor Cost  
Marginal Factor Cost  
Backward Bending Supply  
Labor Markets (continued)  
Imperfect Labor Markets  
Monopsony  
Unions  
Bilateral Monopoly  
Countervailing Power  
Welfare Implications of Union Wage Policies  
The Theory of the Second-Best

Chapter 11,  
pp. 223-239.  
Chapter 10,  
pp. 203-222.

LECTURE 29:

Thursday, December 9, 2004

Market Failure:

Public Goods  
Free-Rider Problem

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**

**Tuesday, December 14, 2004**

**9:45-11:45 AM**

**CRAWFORD 105**