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, online homework.

APLIA™ONLINE HOMEWORK (required): http://www.aplia.com

COMPUTER LAB SCHEDULE: In order to facilitate timely completion of online homework assignments, computer labs have been reserved at the times and locations listed below. Your teaching assistant will be available each week at the Friday 10:00 AM -12:00 PM lab to help with the economic content of the homework assignments. Contact your teaching assistant, Ms. Jaclyn Lindo for help and to confirm that you will be attending the lab session. TEL: TBA. E-mail: lindoj@hawaii.edu

- Fridays 10:00 AM-12:00 PM—PC Lab Saunders Hall 635
- Fridays 1:00 -3:00 PM—PC Lab Saunders Hall 635

SPECIAL INSTRUCTIONS FOR APLIA™:

**How to Use Aplia**

Your total Aplia homework grade counts for 15% of your course grade. To start earning credit toward your Aplia score, follow these two steps:

**Step 1: Register for Your Aplia Course**

**First Time Aplia Users:**

1. Connect to http://www.aplia.com
2. On the Sign In page, click the Go button next to "Test Your System Configuration"; this takes just a few seconds and provides detailed information on how to update your system if necessary
3. Head back to the Sign In page and click the "Register Here" link
4. Fill out the form and click Continue. (You will need your UH Student ID Number and Course Section Number)
5. Enter your course key: 3RCP-UFZ5-RXQT

**Returning Aplia Users:**

1. Connect to http://www.aplia.com and sign in using your usual e-mail and password
2. Enter your course key (above)

If you are having problems with registration or sign in, you can always e-mail Aplia by clicking on the "Help" link in the upper-right corner of any page or by e-mailing
Step 2: Choose Your Payment Option (You have until 09/11/2006 to pay for your course and decide which option to choose)

You have several payment options. To find the right option for you, decide whether you want to purchase a physical textbook.

Note that your Aplia course includes a digital edition (online version) of the textbook. The physical text is optional.

Do you want to buy a physical textbook?

If No, simply pay for your Aplia course ($60):

- Instructions on the Aplia website walk you through the payment process. There are several ways to pay. You can pay online with credit, debit, or electronic check. Aplia also accepts money orders mailed to: Aplia, Inc., 931 Terminal Way, San Carlos, CA 94070.

If Yes, choose from these two options:

1. Buy your physical textbook through Aplia ($60 for Aplia, plus $50 for the physical textbook plus shipping and handling)
   - First, purchase your Aplia course. Instructions on the Aplia website walk you through the payment process. You can pay online with credit, debit, or electronic check. Aplia also accepts money orders mailed to: Aplia, Inc., 931 Terminal Way, San Carlos, CA 94070.
   
   - Next, purchase your physical textbook from Aplia. After you pay for your Aplia course you can order a textbook through Aplia. Just sign into your Aplia course, click on the Bookstore link on your Home page, and follow the prompts to place your order.
   

OR

2. Buy your physical textbook from the UH Bookstore ($135.55).
• Textbooks from the UH Bookstore come bundled with an Aplia Payment Code. (It is in a shrink pack for this course: ECON 130 Section 005. The bundle contains the textbook and the Aplia Payment Code). Use the payment code to pay for your Aplia course online. The Aplia Payment Code covers a portion of or all of your Aplia course fee. Aplia does not refund courses paid for with an Aplia Payment Code. If you are considering dropping this course, you may wish to wait before opening your shrink pack.

**Grace Period for Payment:** You may register and use the website until 09.11.06 without paying the fee. If you are considering dropping this course during the drop/add period, do not make a payment until you decide to stay in the course. You need to pay the full amount before the end of the grace period to continue using the site.

**Aplia assignments:** Most assignments come in pairs of practice problem sets and graded problem sets. Practice problem sets give you immediate feedback and an explanation of the correct answer. They do not count toward your homework grade. Use them to check your understanding of the material. If you feel confident about the material, you can go directly to the graded set and refer to the practice set only if you want some help.

The graded problem sets have a firm due date. You can change your answers as many times as you like before the due date passes. Once the due date passes, Aplia records your grade and you can no longer change your answers or complete the assignment. In other words, Aplia assignments must be done by the due date. The software does not understand excuses. Do your assignments early to keep last minute emergencies from getting in your way. After the due date, Aplia displays the correct answers and explanations for graded problems.

**Student benefits of Aplia:** Cramming is an ineffective learning method. Aplia lets you learn by doing - you can apply what you hear and see in the classroom and what you read in the text. Think of the regular assignments on Aplia as a weekly Economics workout. Regular work in Aplia will better prepare you for lectures and exams.

**FREQUENTLY ASKED QUESTIONS REGARDING APLIA™**

**What is an Aplia Payment Code and how can I get one?**
The Aplia Payment Code is just another way to pay your Aplia course fee. You can find it bundled with your text. Your Aplia Payment Code is different from your Aplia Course Key. The course key allows us to identify your economics class and professor; the payment code tells us that you prepaid your entire Aplia course fee when you purchased the code. An Aplia Payment Code follows the format of xxxxx-xxx-xxxxx-xxx and is printed on a separate card included with your textbook.

**What if I purchase a payment code after paying for Aplia with my credit/debit card or**
electronic check?
We can refund your payment. To speed up the refund process, sign into your Aplia course and go to the My Account tab. Click on My Courses, and enter your payment code. You will then receive an automatic refund.

Under what circumstances can I get a refund?

Refund Policy: You are entitled to a refund if you submit a refund request to Aplia during the original grace period for payment. The grace period for your course expires on 09.11.06. No refunds will be granted after this date. Requests for refunds must be submitted by email or letter and received by Aplia within the stipulated time period. Contact support@aplia.com or write to Aplia Inc., 931 Terminal Way, San Carlos, California 94070 USA, to request a refund. Note: No refunds are issued for courses paid for with an Aplia Payment Code under any circumstances.

How do I access my textbook on the Aplia website?
A digital version of your textbook is available in your Aplia course. You can access textbook chapters on the Home page or through your weekly assignments.

Disclaimer: Professor Russo receives no monetary benefit from requiring Aplia assignments.

GRADE DETERMINATION: Plus/minus grades will be based upon, class attendance, Aplia™ online homework assignments, 2 midterm exams and a final exam weighted in the following fashion:

<table>
<thead>
<tr>
<th>Component</th>
<th>Percentage</th>
<th>Points</th>
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<tbody>
<tr>
<td>Class Attendance</td>
<td>15.0%</td>
<td>(30 points)</td>
</tr>
<tr>
<td>Aplia™ Online Homework</td>
<td>15.0%</td>
<td>(30 points)</td>
</tr>
<tr>
<td>Mid-term exam #1 (09/26/2006)</td>
<td>20.0%</td>
<td>(40 points)</td>
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<tr>
<td>Mid-term exam #2 (11/09/2006)</td>
<td>20.0%</td>
<td>(40 points)</td>
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<tr>
<td>Final exam (12/14/2006)</td>
<td>30.0%</td>
<td>(60 points)</td>
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<tr>
<td>TOTAL</td>
<td>100.0%</td>
<td>(200 points)</td>
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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 course lectures as scheduled should withdraw immediately. Attendance will be measured through a sign-in system. Students unable to attend the entire lecture should not sign-in. Because attendance will count toward course credit, abuse of the sign-in system will be treated as academic dishonesty. There are no excused absences. There are no excused exams. There are no excused homework assignments. The course operates on a no excuses basis throughout. Complete your online homework assignments in advance of the due dates.

Students traveling on official University activities (e.g., students on athletic teams, band, etc.) are expected to complete their online homework while on travel. Contact your team/department academic advisor and request a laptop computer and internet access for use from your hotel/motel room or other travel location. Students on official travel may take examinations at their travel destination with advance approval, if their official travel schedule conflicts with the examination dates. Contact your head coach, academic advisor and/or other responsible University employee and request assistance with this matter. Please be aware that all absences from the classroom are considered un-excused. However, grades for attendance will be sufficiently curved to allow for a small amount of time for travel, illness and/or family emergency.

The KOKUA Program provides academic access services to students with documented physical and/or mental disabilities. E-mail: kokua@hawaii.edu. Web: www.hawaii.edu/kokua.
## TENTATIVE COURSE SCHEDULE

<table>
<thead>
<tr>
<th>Reading Assignment</th>
<th>Topic</th>
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<tr>
<td>Chapter 1, pp. 1-17.</td>
<td><strong>LECTURE 1:</strong> Introduction</td>
<td>Tuesday, August 22, 2006</td>
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<tr>
<td>Chapter 2, pp. 19-46.</td>
<td>Fundamental Principles of Scarcity and Choice</td>
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<td>Economic Methodology</td>
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<td>Partial Equilibrium Analysis vs. General Equilibrium Analysis</td>
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<td>Model Building: Equilibrium Analysis</td>
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<td>Optimization Analysis</td>
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<td>Positive vs. Normative Economics</td>
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<td>Microeconomics vs. Macroeconomics</td>
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<td>Mathematics and Graphics in Economics</td>
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<td>Economic Goals of Society</td>
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<td>Growth</td>
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<td>Economic Resources: Land</td>
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<td>Labor</td>
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<td>Capital</td>
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<td>Entrepreneurial Ability</td>
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<td>Technical Efficiency vs. Allocative Efficiency</td>
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<td>Efficient Resource Allocation</td>
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<td>Chapter 3, pp. 47-60.</td>
<td><strong>LECTURE 2:</strong> Introduction (continued): Economic Methodology</td>
<td>Thursday, August 24, 2006</td>
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<td>Production and Exchange: Production Possibilities Frontier (PPF)</td>
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<td>Opportunity Cost</td>
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<td><strong>LECTURE 3:</strong></td>
<td>Production and Exchange (continued): Comparative Advantage</td>
<td>Tuesday, August 29, 2006</td>
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<td>Absolute Advantage</td>
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<td>Gains from Trade</td>
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Chapter 4, pp. 63-87.

LECTURE 4: Thursday, August 31, 2006
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

LECTURE 5: Tuesday, September 5, 2006
Supply and Demand Analysis (continued):
- Market Equilibrium
- Price Ceilings and Price Floors
- Economic Surpluses and Economic Shortages
- Comparative Static Analysis

Chapter 5, pp. 89-111.
Chapter 6, pp. 113-134.

LECTURE 6: Thursday, September 7, 2006
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
Chapter 7, pp. 137-158

LECTURE 7: Tuesday, September 12, 2006
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. 159-175

LECTURE 8: Thursday, September 14, 2006
Application: The Incidence of Excise Taxes

LECTURE 9: Tuesday, September 19, 2006
Application: The Incidence of Excise Taxes
(continued)

Chapter 9, pp. 177-199

LECTURE 10: Thursday, September 21, 2006
Application: International Trade

REVIEW SESSION
Date: TBA
Time: TBA
Room: TBA

LECTURE 11: Tuesday, September 26, 2006
MIDTERM EXAM #1
40 Multiple Choice

Chapter 21, pp. 455-481.

LECTURE 12: Thursday, September 28, 2006
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 13: Tuesday, October 3, 2006
Consumer Theory (continued):
Application: Simultaneous Income and Relative Price Changes with Possible Consumer Responses Delineated via Revealed Preference

LECTURE 14: Thursday, October 5, 2006
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 15: Tuesday, October 10, 2006
Consumer Theory (continued):
Derivation of a Demand Curve
Income and Substitution Effects
Giffen Goods

LECTURE 16: Thursday, October 12, 2006
Consumer Theory (continued):
Derivation of a Demand Curve (continued)
Income and Substitution Effects (continued)
Giffen Goods (continued)

LECTURE 17: Tuesday, October 17, 2006
Consumer Theory (continued):
Income and Substitution Effects (continued)
Giffen Goods (continued)

Chapter 13, pp. 267-287.

LECTURE 18: Thursday, October 19, 2006
Theory of the Firm: Production
Production Functions
Total Product
Average product
Marginal Product
Technical Efficiency
Stages of Production

LAST DAY TO WITHDRAW (with “W” grade) Friday October 20 2006
LECTURE 19: Tuesday, October 24, 2006
Theory of the Firm: Duality
The Relation Between Product Curves and Cost Curves

LECTURE 20: Thursday, October 26, 2006
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. 289-309.
LECTURE 21: Tuesday, October 31, 2006
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 22: Thursday, November 2, 2006
Perfectly Competitive Industry:
Short-Run Supply Curve of the Firm
Short-Run Supply Curve of the Industry
Long-Run Equilibrium for the Firm
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 23: Thursday, November 9, 2006
MIDTERM EXAM #2
40 Multiple Choice

Chapter 15, pp. 311-343.

LECTURE 24: Tuesday, November 14, 2006
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 25: Thursday, November 16, 2006
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 26: Tuesday, November 21, 2006
Theory of the Firm: Monopolistic Competition
  Many Firms
  Price Taking Behavior
  Differentiated Products
  Free Entry and Exit
  Advertising

Chapter 16, pp. 345-371. LECTURE 27: Tuesday, November 28, 2006
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. 393-412. LECTURE 28: Thursday, November 30, 2006
Factor Markets: Labor
  Competitive Model
  Derived Demand for Labor
  Value of the Marginal Product (VMP)
  Marginal Revenue Product (MRP)

Chapter 19, pp. 413-430. LECTURE 29: Tuesday, December 5, 2006
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 30: Thursday, December 7, 2006
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, 2006
9:45-11:45 AM
BUSAD A102