Semester: Fall 2009
Lecture: TR 10:30-11:45 AM
BUSAD A102

Teaching Assistant:
Office:
Office Hours:
Phone:
E-mail:

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 strong high school algebra skills, with elementary mathematical and graphical ability. Strong intuition and verbal skills can be partial substitutes for technical ability.

STUDENT LEARNING OUTCOMES: Upon completion of the courses, students should be able: to analyze at a basic level the impact of taxation, regulation, technical change and costs on market prices and output under various assumptions regarding market structure including, perfect competition, monopoly, oligopoly, and monopolistic competition; to understand the determinants of consumer demand including, prices and income; to analyze at a basic level situations, such as public goods, externalities and imperfect information, where market failures are likely to occur and government action is potentially justified.
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, a computer lab is reserved for class use. The lab schedule is as follows:

- TBA

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>Weight</th>
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<tbody>
<tr>
<td>Class Attendance</td>
<td>15.0%</td>
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<tr>
<td>Aplia™Online Homework</td>
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<tr>
<td>Mid-term exam #1 (09/29/2009)</td>
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<td>Mid-term exam #2 (11/10/2009)</td>
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<tr>
<td>Final exam (12/13/2009)</td>
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<tr>
<td>TOTAL</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 an appropriate 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>
<th>Date</th>
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<tbody>
<tr>
<td>Chapter 1, pp. 3-19.</td>
<td>LECTURE 1: Introduction</td>
<td>Tuesday, August 25, 2009</td>
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<tr>
<td>Chapter 2, pp. 21-48.</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:</td>
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<td>- 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>- Equity</td>
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<td>Economic Resources:</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>Production and Exchange</td>
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<td>- Production Possibilities Frontier (PPF)</td>
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<td>- Opportunity Cost</td>
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<td>LECTURE 3:</td>
<td>Production and Exchange (continued): Comparative Advantage</td>
<td>Tuesday, September 1, 2009</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. 65-88.

LECTURE 4: Thursday, September 3, 2009
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 8, 2009
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.

LECTURE 6: Thursday, September 10, 2009
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. 137-157  
LECTURE 7:  
Tuesday, September 15, 2009  
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 17, 2009  
Application: The Incidence of Excise Taxes

LECTURE 9:  
Tuesday, September 22, 2009  
Application: The Incidence of Excise Taxes  
(continued)

Chapter 9, pp. 177-199  
LECTURE 10:  
Thursday, September 24, 2009  
Application: International Trade

REVIEW SESSION  
Date: TBA  
Time: TBA  
Room: TBA

LECTURE 11:  
Tuesday, September 29, 2009  
MIDTERM EXAM #1  
40 Multiple Choice

Chapter 21, pp. 457-482.  
LECTURE 12:  
Thursday, October 1, 2009  
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 6, 2009
Consumer Theory (continued):  
Application: Simultaneous Income and Relative Price Changes with Possible Consumer Responses Delineated via Revealed Preference

LECTURE 14: Thursday, October 8, 2009  
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 13, 2009  
Consumer Theory (continued):  
Derivation of a Demand Curve
Income and Substitution Effects
Giffen Goods

LECTURE 16: Thursday, October 15, 2009  
Consumer Theory (continued):  
Derivation of a Demand Curve (continued)
Income and Substitution Effects (continued)
Giffen Goods (continued)

LECTURE 17: Tuesday, October 20, 2009  
Consumer Theory (continued):  
Income and Substitution Effects (continued)
Giffen Goods (continued)

Chapter 13, pp. 267-287.  
LECTURE 18: Thursday, October 22, 2009  
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 23, 2009
LECTURE 19: Theory of the Firm: Duality Tuesday, October 27, 2009
The Relation Between Product Curves and Cost Curves

LECTURE 20: Theory of the Firm: Cost Curves Thursday, October 29, 2009
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. 289-310.

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: Perfectly Competitive Industry: Thursday, November 5, 2009
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:  
Tuesday, November 10, 2009
MIDTERM EXAM #2
40 Multiple Choice

Chapter 15, pp. 311-343.
LECTURE 24:  
Thursday, November 12, 2009
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:  
Tuesday, November 17, 2009
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 16, pp. 345-364.

**LECTURE 26:** Thursday, November 19, 2009
Theory of the Firm: Monopolistic Competition
   Many Firms
   Price Taking Behavior
   Differentiated Products
   Free Entry and Exit
   Advertising

Chapter 17, pp. 365-388.

**LECTURE 27:** Tuesday, November 24, 2009
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. 391-412.

**LECTURE 28:** Tuesday, December 1, 2009
Factor Markets: Labor
   Competitive Model
   Derived Demand for Labor
   Value of the Marginal Product (VMP)
   Marginal Revenue Product (MRP)

Chapter 19, pp. 413-431.

**LECTURE 29:** Thursday, December 3, 2009
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. 225-240.
Chapter 10, pp. 203-223.

LECTURE 30: Tuesday, December 8, 2009
Market Failure:
Public Goods
Free-Rider Problem

LECTURE 31: Thursday, December 10, 2009
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 13, 2009
9:45-11:45 AM
BUSAD A102