

UNIVERSITY OF HAWAII AT MĀNOA
Department of Economics

ECON 130 (Section 004)
Principles of Economics (Micro)

Rev. 01/10/05

Semester: Spring 2005
Lecture: TR 9:00-10:15 AM
Architecture 205

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*, 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: 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 (02/15/2005)	27.5% (55 points)
Mid-term exam #2 (04/07/2005)	27.5% (55 points)
Final exam (05/10/2005)	<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 course lectures as scheduled 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, January 11, 2005
Chapter 3, pp. 45-59.	<u>LECTURE 2:</u> Introduction (continued): Economic Methodology Production and Exchange: Production Possibilities Frontier (PPF) Opportunity Cost	Thursday, January 13, 2005
	<u>LECTURE 3:</u> Production and Exchange (continued): Comparative Advantage Absolute Advantage Gains from Trade	Tuesday, January 18, 2005

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, January 20, 2005

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

Tuesday, January 25, 2005

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, January 27, 2005

Chapter 7,
pp. 137-158

LECTURE 7: Tuesday, February 1, 2005
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, February 3, 2005
Application: The Incidence of Excise Taxes

LECTURE 9: Tuesday, February 8, 2005
Application: The Incidence of Excise Taxes
(continued)

Chapter 9,
pp. 175-199

LECTURE 10: Thursday, February 10, 2005
Application: International Trade

REVIEW SESSION

Date: TBA
Time: TBA
Room: TBA

LECTURE 11: **Tuesday, February 15, 2005**
MIDTERM EXAM #1
55 Multiple Choice

Chapter 21,
pp. 453-478.

LECTURE 12: Thursday, February 17, 2005
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, February 22, 2005
Consumer Theory (continued):

Application: Simultaneous Income and Relative Price Changes with Possible Consumer Responses Delineated via Revealed Preference

LECTURE 14: Thursday, February 24, 2005

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, March 1, 2005

Consumer Theory (continued):

Derivation of a Demand Curve

Income and Substitution Effects

Giffen Goods

LECTURE 16: Thursday, March 3, 2005

Consumer Theory (continued):

Derivation of a Demand Curve (continued)

Income and Substitution Effects (continued)

Giffen Goods (continued)

LECTURE 17: Tuesday, March 8, 2005

Consumer Theory (continued):

Income and Substitution Effects (continued)

Giffen Goods (continued)

Chapter 13,
pp. 267-288.

LECTURE 18: Thursday, March 10, 2005

Theory of the Firm: Production

Production Functions

Total Product

Average product

Marginal Product

Technical Efficiency

Stages of Production

LECTURE 19: Tuesday, March 15, 2005

Theory of the Firm: Duality

The Relation Between Product Curves and

Cost Curves

LECTURE 20:

Thursday, March 17, 2005

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 21:

Tuesday, March 29, 2005

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, March 31, 2005

Perfectly Competitive Industry:

Short-Run Supply Curve of the Firm

Short-Run Supply Curve of the Industry

Long-Run Equilibrium for the Firm

LECTURE 23:

Tuesday, April 5, 2005

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 24:
MIDTERM EXAM #2
55 Multiple Choice

Thursday, April 7, 2005

Chapter 15,
pp. 313-344.

LECTURE 25:
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

Tuesday, April 12, 2005

LECTURE 26:
Monopoly (continued):
Price Discrimination
Arbitrage
1st Degree Price Discrimination (Perfect)
2nd Degree Price Discrimination
3rd Degree Price Discrimination
Equity and Welfare Implications
Natural Monopoly

Thursday, April 14, 2005

Chapter 17,
pp. 373-387.

LECTURE 27:
Theory of the Firm: Monopolistic Competition
Many Firms
Price Taking Behavior
Differentiated Products

Tuesday, April 19, 2005

Free Entry and Exit
Advertising

Chapter 16,
pp. 345-372.

LECTURE 28:

Thursday, April 21, 2005

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 29:

Tuesday, April 26, 2005

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 30:

Thursday, April 28, 2005

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 31:

Tuesday, May 3, 2005

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, May 10, 2005

9:45-11:45 AM

ARCHITECTURE 205