Aplia™ Course Key: 3QX5-E3HR-KZHG

Semester: Spring 2010
Lecture: TR 10:30-11:45 AM
ART 132

Instructor: Gerard “Jerry” RUSSO
Office Hours: F 9:30-11:30 AM
or by appointment
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Phone: 956-7065
E-mail: russo@hawaii.edu

Teaching Assistant: Mr. Kohei Nitta
Office: Saunders Hall, Rm 539
Office Hours: MW 1:30-2:30 PM
Phone: 956–8639
E-mail: kohein@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 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

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</td>
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<tr>
<td>Aplia™ Online Homework</td>
<td>15.0%</td>
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<tr>
<td>Mid-term exam #1 (02/16/2010)</td>
<td>20.0%</td>
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<td>Mid-term exam #2 (04/06/2010)</td>
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<tr>
<td>Final exam (05/11/2010)</td>
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<tr>
<td>TOTAL</td>
<td>100.0%</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.
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>
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<td>Chapter 1, pp. 3-19.</td>
<td><strong>LECTURE 1:</strong> Introduction</td>
<td>Tuesday, January 12, 2010</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>Growth</td>
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<td>Full Employment</td>
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<td>Equity</td>
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<td>Efficiency</td>
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<td>Economic Resources:</td>
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<td>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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<tr>
<td>Chapter 3, pp. 49-62.</td>
<td><strong>LECTURE 2:</strong> Introduction (continued): Economic Methodology</td>
<td>Thursday, January 14, 2010</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><strong>LECTURE 3:</strong></td>
<td>Tuesday, January 19, 2010</td>
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<td>Production and Exchange (continued):</td>
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<td>Comparative Advantage</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:**
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 21, 2010

Chapter 5, pp. 89-111.

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

Tuesday, January 26, 2010

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 28, 2010
Chapter 7, pp. 137-157

LECTURE 7: 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: Application: The Incidence of Excise Taxes

LECTURE 9: Application: The Incidence of Excise Taxes (continued)

Chapter 9, pp. 177-199

LECTURE 10: Application: International Trade

REVIEW SESSION
Date: Friday, February 12, 2010
Time: 3:30-5:30 PM
Room: ART 132

LECTURE 11: MIDTERM EXAM #1
40 Multiple Choice

Chapter 21, pp. 457-482.

LECTURE 12: 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: Consumer Theory (continued):
Application: Simultaneous Income and Relative Price Changes with Possible Consumer Responses Delineated via Revealed Preference
LECTURE 14: Thursday, February 25, 2010
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 2, 2010
Consumer Theory (continued):
Derivation of a Demand Curve
Income and Substitution Effects
Giffen Goods

LECTURE 16: Thursday, March 4, 2010
Consumer Theory (continued):
Derivation of a Demand Curve (continued)
Income and Substitution Effects (continued)
Giffen Goods (continued)

LECTURE 17: Tuesday, March 9, 2010
Consumer Theory (continued):
Income and Substitution Effects (continued)
Giffen Goods (continued)

Chapter 13, pp. 267-287.
LECTURE 18: Thursday, March 11, 2010
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) 4:00 PM Friday, March 12, 2010

LECTURE 19: Tuesday, March 16, 2010
Theory of the Firm: Duality
The Relation Between Product Curves and Cost Curves
LECTURE 20: Thursday, March 18, 2010
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. 289-310.
LECTURE 21: Tuesday, March 30, 2010
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, April 1, 2010
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: Friday, April 2, 2010
Time: 3:30-5:30 PM
Room: ART 132

LECTURE 23:
MIDTERM EXAM #2
40 Multiple Choice

Chapter 15, pp. 311-343.

LECTURE 24:
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:
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:
Theory of the Firm: Monopolistic Competition
Many Firms
Price Taking Behavior
Differentiated Products
Free Entry and Exit
Advertising
Chapter 17, LECTURE 27:
pp. 365-388.
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, LECTURE 28:
pp. 391-412.
Factor Markets: Labor
  Competitive Model
  Derived Demand for Labor
  Value of the Marginal Product (VMP)
  Marginal Revenue Product (MRP)

Chapter 19, LECTURE 29:
pp. 413-431.
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, LECTURE 30:
pp. 225-240.
Market Failure:
  Public Goods
  Free-Rider Problem
LECTURE 31: Tuesday, May 4, 2010
Market Failure (continued):
Externalities
Coase Theorem
Corrective Taxation
Pollution Rights
Polluting Monopolists and the Theory of Second-Best

REVIEW SESSION
Date: Friday, May 7, 2010
Time: 3:30-5:30 PM
Room: ART 132

FINAL EXAM
Tuesday, May 11, 2010
9:45-11:45 AM
ART 132