UNIVERSITY OF HAWAI’I AT MĀNOA
Department of Economics

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

Rev. 08/17/04

Semester: Fall 2004
Instructor: Gerard “Jerry” RUSSO
Lecture: TR 10:30-11:45 AM
Office Hours: MTWR 1:30-2:30 PM
Crawford Hall 105
Office: Saunders Hall, Rm 515B
Teaching Assistant: Jaclyn “Jackie” Lindo
Office: Saunders Hall, Room 538
Office Hours: TR 9:00 - 10:30 AM
Phone: 956-8347
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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.


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)
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

<table>
<thead>
<tr>
<th>Reading Assignment</th>
<th>Topic</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chapter 1, pp. 1-18.</td>
<td><strong>LECTURE 1:</strong> Introduction</td>
<td>Tuesday, August 24, 2004</td>
</tr>
<tr>
<td>Chapter 2, pp. 19-44.</td>
<td>Fundamental Principles of Scarcity and Choice</td>
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<tr>
<td></td>
<td>Economic Methodology</td>
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<tr>
<td></td>
<td>Partial Equilibrium Analysis vs. General Equilibrium Analysis</td>
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<td></td>
<td>Model Building:</td>
<td></td>
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<tr>
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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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<tr>
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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>Stability</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. 45-59.</td>
<td><strong>LECTURE 2:</strong> Introduction (continued): Economic Methodology</td>
<td>Thursday, August 26, 2004</td>
</tr>
<tr>
<td></td>
<td>Production and Exchange:</td>
<td></td>
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<td>Production Possibilities Frontier (PPF)</td>
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<td>Opportunity Cost</td>
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<tr>
<td><strong>LECTURE 3:</strong></td>
<td>Production and Exchange (continued):</td>
<td>Tuesday, August 31, 2004</td>
</tr>
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<td></td>
<td>Comparative Advantage</td>
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<td>Absolute Advantage</td>
<td></td>
</tr>
</tbody>
</table>
Gains from Trade

Chapter 4, pp. 63-88.

LECTURE 4: Thursday, September 2, 2004
Supply and Demand Analysis:
Determination of Demand
- Prices
- Income
- Tastes
- Expectations
Normal Goods
Inferior Goods
Complementary Goods
Substitute Goods
Determination of Supply
- Output Prices
- Input Prices
- Technology
- Weather
- Expectations

LECTURE 5: Tuesday, September 7, 2004
Supply and Demand Analysis (continued):
Market Equilibrium
Price Ceilings and Price Floors
Economic Surpluses and Economic Shortages
Comparative Static Analysis

Chapter 5, pp. 89-112.

LECTURE 6: Thursday, September 9, 2004
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 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, LECTURE 25: Tuesday, November 23, 2004
pp. 373-387. Theory of the Firm: Monopolistic Competition
Many Firms
Price Taking Behavior
Differentiated Products
Free Entry and Exit
Advertising

Chapter 16, LECTURE 26: Tuesday, November 30, 2004
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 27: Thursday, December 2, 2004
pp. 391-410. Factor Markets: Labor
Competitive Model
Derived Demand for Labor
Value of the Marginal Product (VMP)
Marginal Revenue Product (MRP)

Chapter 19, LECTURE 28: Tuesday, December 7, 2004
pp. 411-428. 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