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://econ.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. The teaching assistant will be available each week at the Thursday lab 2:00-4:00 PM to help with the economic content of the homework assignments. The other times are open for your use. A College of Social Sciences lab monitor will be present in the lab. The lab monitor can help with hardware and software problems but cannot assist with use of the APLIA™ web site. Please do not ask the lab monitor for help with the economic content of the course. Contact your teaching assistant, Mr. Hao “Thomas” Zhang for help. haozhang@hawaii.edu

- Wednesday 2:00-4:00 PM—PC Lab Saunders 342
- Thursdays 2:00-4:00 PM—PC Lab Saunders 342
- Fridays 1:00-3:00 PM—PC Lab Saunders 342
- Fridays 10:00-11:00 AM—MAC Lab Crawford 114

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

1. Connect to http://econ.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: 9QXA-Y4AU-VHX2

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 support@aplia.com.

Step 2: Choose Your Payment Option

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 and $5 in 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 ($94.50).**
   - Textbooks from the UH Bookstore come bundled with an Aplia Payment Code. (It is in a shrink pack for this course: ECON 130 Section 001. The bundle contains the textbook, the study guide 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 09.12.05 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.

**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, 3 midterm exams and a final exam weighted in the following fashion:

- Class Attendance: 15.0% (30 points)
- Aplia™ Online Homework: 15.0% (30 points)
- Mid-term exam #1 (09/23/2005): 15.0% (30 points)
- Mid-term exam #2 (10/17/2005): 15.0% (30 points)
- Mid-term exam #3 (11/16/2005): 15.0% (30 points)
- Final exam (12/16/2005): 25.0% (50 points)
- 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

<table>
<thead>
<tr>
<th>Reading Assignment</th>
<th>Topic</th>
<th>Date</th>
</tr>
</thead>
</table>
| Chapter 1, pp. 1-18. | **LECTURE 1:** 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 | Monday, August 22, 2005 |
| Chapter 2, pp. 19-44. | **LECTURE 2:** 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 | Wednesday, August 24, 2005 |
| Chapter 3, pp. 45-59. | **LECTURE 3:** Introduction (continued): Economic Methodology Production and Exchange:  
  Production Possibilities Frontier (PPF)  
  Opportunity Cost | Friday, August 26, 2005 |
| | **LECTURE 4:** Production and Exchange (continued):  
  Comparative Advantage  
  Absolute Advantage  
  Gains from Trade | Monday, August 29, 2005 |
Chapter 4, pp. 63-88.

LECTURE 5: Wednesday, August 31, 2005
Supply and Demand Analysis:
Determinants of Demand
- Prices
- Income
- Tastes
- Expectations
- Normal Goods
- Inferior Goods
- Complementary Goods
- Substitute Goods

LECTURE 6: Friday, September 2, 2005
Determinants of Supply
- Output Prices
- Input Prices
- Technology
- Weather
- Expectations
- Market Equilibrium
- Price Ceilings and Price Floors
- Economic Surpluses and Economic Shortages

LECTURE 7: Wednesday, September 7, 2005
Supply and Demand Analysis (continued):
Comparative Static Analysis

Chapter 5, pp. 89-112.
Chapter 6, pp.113-133.

LECTURE 8: Friday, September 9, 2005
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 9: Monday, September 12, 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 10: Wednesday, September 14, 2005
Application: The Incidence of Excise Taxes

LECTURE 11: Friday, September 16, 2005
Application: The Incidence of Excise Taxes (continued)

LECTURE 12: Monday, September 19, 2005
Application: The Incidence of Excise Taxes (continued)

Chapter 9, pp. 175-199

LECTURE 13: Wednesday, September 21, 2005
Application: International Trade

REVIEW SESSION
Date: Wednesday, September 21, 2005
Time: 1:30-3:00 PM
Room: TBA

LECTURE 14: Friday, September 23, 2005
MIDTERM EXAM #1
30 Multiple Choice

Chapter 21, pp. 453-478.

LECTURE 15: Monday, September 26, 2005
Modeling Consumer Behavior
Consumer Theory:
- Budget Lines
- Prices and Income

LECTURE 16: Wednesday, September 28, 2005
Consumer Theory (continued):
- Revealed Preference
  - Rationality
- Non-satiation ("more is preferred to less")
- Dominated Region
- Preferred Region
LECTURE 17: Friday, September 30, 2005
Consumer Theory (continued):
Application: Simultaneous Income and Relative Price Changes with Possible Consumer Responses Delineated via Revealed Preference

LECTURE 18: Monday, October 3, 2005
Consumer Theory (continued):
Preferences, Tastes
Utility Theory
Utility Functions
Cardinal Utility vs. Ordinal Utility
Indifference Curves

LECTURE 19: Wednesday, October 5, 2005
Consumer Theory (continued):
Application: Transfers in Cash vs. Transfers in Kind

LECTURE 20: Friday, October 7, 2005
Consumer Theory (continued):
Derivation of a Demand Curve
Income and Substitution Effects
Giffen Goods

LECTURE 21: Monday, October 10, 2005
Consumer Theory (continued):
Derivation of a Demand Curve (continued)
Income and Substitution Effects (continued)
Giffen Goods (continued)

LECTURE 22: Wednesday, October 12, 2005
Consumer Theory (continued):
Income and Substitution Effects (continued)
Giffen Goods (continued)

LECTURE 23: Friday, October 14, 2005
Consumer Theory (continued):
Income and Substitution Effects (continued)
Giffen Goods (continued)

REVIEW SESSION
Date: Friday, October 14, 2005
Time: 1:30-3:00 PM
Room: TBA

LECTURE 24:  Monday, October 17, 2005
MIDTERM EXAM #2
30 Multiple Choice

LECTURE 25:  Wednesday, October 19, 2005
Chapter 13, pp. 267-288.
Theory of the Firm: Production
Production Functions
  Total Product
  Average product
  Marginal Product
Technical Efficiency
Stages of Production

LECTURE 26:  Friday, October 21, 2005
Theory of the Firm: Duality
The Relation Between Product Curves and Cost Curves

LECTURE 27:  Monday, October 24, 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

LECTURE 28:  Wednesday, October 26, 2005
Theory of the Firm: Cost Curves (continued)
Long Run Cost Curves
Economies of Scale
Economies of Scope

LECTURE 29:  Friday, October 28, 2005
Chapter 14, pp. 289-311.
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 30: Monday, October 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 31: Wednesday, November 2, 2005
Perfectly Competitive Industry (continued):
  Long-Run Supply Curve for the Industry
  Increasing Cost Industry
  Constant Cost Industry
  Decreasing Cost Industry

LECTURE 32: Friday, November 4, 2005
Welfare Implications of Competitive Market Structure

Chapter 15, pp. 313-344.

LECTURE 33: Monday, November 7, 2005
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 34: Monday, November 9, 2005
Monopoly (continued):
  Price Discrimination
  Arbitrage
  1st Degree Price Discrimination (Perfect)
2nd Degree Price Discrimination
3rd Degree Price Discrimination
Equity and Welfare Implications

LECTURE 35: Monday, November 14, 2005
Monopoly (continued):
Natural Monopoly

REVIEW SESSION
Date: Monday, November 14, 2005
Time: 1:30-3:00 PM
Room: TBA

LECTURE 36: Wednesday, November 16, 2005
MIDTERM EXAM #3
30 Multiple Choice

Chapter 17, pp. 373-387.
LECTURE 37: Friday, November 18, 2005
Theory of the Firm: Monopolistic Competition
Many Firms
Price Taking Behavior
Differentiated Products
Free Entry and Exit
Advertising

Chapter 16, pp. 345-372.
LECTURE 38: Monday, November 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

LECTURE 39: Wednesday, November 23, 2005
Theory of the Firm: Oligopoly (continued)
Game Theory
Dominant Strategy
Pure Strategy
Mixed Strategy
Nash Equilibrium
Prisoners’ Dilemma

Chapter 18, pp. 391-410.

LECTURE 40: Monday, November 28, 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 41: Wednesday, November 30, 2005
Factor Markets: Labor
   Supply of Labor
   Wages
   Average Factor Cost
   Marginal Factor Cost
   Backward Bending Supply

LECTURE 42: Friday, December 2, 2005
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.

LECTURE 43: Monday, December 5, 2005
Market Failure:
   Public Goods
   Free-Rider Problem

Chapter 10, pp. 203-222.

LECTURE 44: Wednesday, December 7, 2005
Market Failure (continued):
   Externalities
   Coase Theorem
   Corrective Taxation
   Pollution Rights
   Polluting Monopolists and the Theory of Second-Best

REVIEW SESSION
Date: Wednesday, December 7, 2005
Time: 1:30-3:30 PM
Room: TBA

FINAL EXAM
Friday, December 16, 2005
12:00-2:00 PM
ARCH 205