UNIVERSITY OF HAWAI’I 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
Office Hours: TR 10:30-11:30 AM
or by appointment
Office: Saunders Hall, Rm 515B
Phone: 956-7065
E-mail: russo@hawaii.edu

Teaching Assistant: Mayumi Ueno Bendiner
Office: Saunders Hall, Room 539
Office Hours: M 1:30-2:30 PM and W 11:30 AM-12:30 PM
or by appointment
Phone: 956-8639
E-mail: mayumiu@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 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)
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) 35.0% (70 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>
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</thead>
</table>
| Chapter 1, pp. 1-18. | LECTURE 1: Introduction  
Chapter 2, pp. 19-44. | Tuesday, January 11, 2005                                |
|                    | 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 |  |
| Chapter 3, pp. 45-59. | LECTURE 2: Introduction (continued): Economic Methodology  
                    | Production and Exchange:  
                    | Production Possibilities Frontier (PPF)  
                    | Opportunity Cost | Thursday, January 13, 2005 |
|                    | LECTURE 3: Production and Exchange (continued):  
                    | Comparative Advantage  
                    | Absolute Advantage  
                    | Gains from Trade | Tuesday, January 18, 2005 |
Chapter 4, pp. 63-88.

**LECTURE 4:**
Thursday, January 20, 2005

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, January 25, 2005

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, January 27, 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 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

Tuesday, February 1, 2005

Chapter 8, pp. 159-174

LECTURE 8: Application: The Incidence of Excise Taxes

Thursday, February 3, 2005

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

Tuesday, February 8, 2005

Chapter 9, pp. 175-199

LECTURE 10: Application: International Trade

Thursday, February 10, 2005

REVIEWS
Date: TBA
Time: TBA
Room: TBA

LECTURE 11: MIDTERM EXAM #1
55 Multiple Choice

Tuesday, February 15, 2005

Chapter 21, pp. 453-478.

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

Thursday, February 17, 2005

LECTURE 13: Consumer Theory (continued):

Tuesday, February 22, 2005
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. Theory of the Firm: Perfect Competition

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: Thursday, April 7, 2005
MIDTERM EXAM #2
55 Multiple Choice

Chapter 15, pp. 313-344.

LECTURE 25: Tuesday, April 12, 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 26: Thursday, April 14, 2005
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, pp. 373-387.

LECTURE 27: Tuesday, April 19, 2005
Theory of the Firm: Monopolistic Competition
Many Firms
Price Taking Behavior
Differentiated Products
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