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: Grades will be based upon 2 midterm exams and a final exam weighted in the following fashion:

- Mid-term exam #1 (09/25/2003) 30% (60 questions)
- Mid-term exam #2 (11/12/2003) 30% (60 questions)
- Final exam (12/18/2003) 40% (100 questions)
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.
## TENTATIVE COURSE SCHEDULE

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Gains from Trade

Chapter 4, pp. 63-88.

LECTURE 4: Thursday, September 4, 2003
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, September 9, 2003
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 11, 2003
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 16, 2003
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 18, 2003
Application: The Incidence of Excise Taxes

Chapter 9, pp. 175-199

LECTURE 9: Tuesday, September 23, 2003
Application: International Trade

REVIEW SESSION
Date: TBA
Time: TBA
Room: TBA

LECTURE 10: Thursday, September 25, 2003
MIDTERM EXAM #1
60 Multiple Choice

Chapter 21, pp. 453-478.

LECTURE 11: Tuesday, September 30, 2003
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, October 2, 2003
Consumer Theory (continued):
Application: Simultaneous Income and Relative Price Changes with Possible Consumer Responses Delineated via Revealed Preference

LECTURE 13: Tuesday, October 7, 2003
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 9, 2003
Consumer Theory (continued):
Derivation of a Demand Curve
Income and Substitution Effects
Giffen Goods

LECTURE 15: Tuesday, October 14, 2003
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 16, 2003
Theory of the Firm: Production
Production Functions
Total Product
Average product
Marginal Product
Technical Efficiency
Stages of Production

LECTURE 17: Tuesday, October 21, 2003
Theory of the Firm: Duality
The Relation Between Product Curves and Cost Curves

LECTURE 18: Thursday, October 23, 2003
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 28, 2003
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 30, 2003
Perfectly Competitive Industry:
  Short-Run Supply Curve of the Firm
  Short-Run Supply Curve of the Industry
  Long-Run Equilibrium for the Firm

REVIEW SESSION
Date: TBA
Time: TBA
Room: TBA

LECTURE 21: Tuesday, November 4, 2003
MIDTERM EXAM #2
60 Multiple Choice

LECTURE 22: Thursday, November 6, 2003
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

Chapter 15, pp. 313-344.
LECTURE 23: Thursday, November 13, 2003
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: Tuesday, November 18, 2003
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: Thursday, November 20, 2003
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 25, 2003
- 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: Tuesday, December 2, 2003
pp. 391-410. 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 28: Thursday, December 4, 2003
Factor Markets: Labor
Supply of Labor
Wages
Average Factor Cost
Marginal Factor Cost
Backward Bending Supply

LECTURE 29: Tuesday, December 9, 2003
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 30: Thursday, December 11, 2003
Market Failure:
Public Goods
Free-Rider Problem

Chapter 10, pp. 203-222.

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
Thursday, December 18, 2003
12:00-2:00 PM
ARCH 205