

SYLLABUS

Economics 201.04 – Principles of Microeconomics

Office: Bryan Bldg. 458
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Spring 2008
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COURSE DESCRIPTION

“Economics is primarily useful, both to the student and to the political leader, as a prophylactic against popular fallacies.” Henry Simons

The course will introduce you to the principles of microeconomic analysis, or the theory of markets. We will begin with an overview of how a market economy works, then develop a set of tools (for example, demand and supply analysis, elasticity concepts, the principle of comparative advantage). Throughout the course we will apply the tools to help us understand various policy problems. Some of the topics covered include international trade, the effects of taxation, the notion of market failure and appropriate policy responses, and the differences among various market structures.

COURSE LEARNING OBJECTIVES

1. Understand that scarcity gives rise to choice, that every choice has an opportunity cost, and that trade-offs always exist. Be able to demonstrate these concepts using a production possibilities diagram.
2. Understand the difference between absolute and comparative advantage. Use these to show the potential gains from trade.
3. Thoroughly comprehend the demand and supply diagram, the meaning of equilibrium, and how to do basic comparative statics. Recognize differences between shifts in a curve and movements along a curve. Understand the effects of price-fixing, both price supports and price ceilings.
4. Understand the notion of elasticities of demand and supply. Apply these to various policy issues.
5. Use the concepts of consumer and producer surplus to analyze the efficiency characteristics of competitive markets. Apply these to various policy issues.
6. Develop the notions of production and costs of production. Combine these with revenue concepts to develop a theory of firm behavior.
7. Recognize the four different market structures, and the policy requirements or options associated with each of them. Do a welfare comparison of monopoly and competition.
8. Analyze the workings of markets for factors of production. Do some policy applications using the labor market.

Procedural Matters

1. **BLACKBOARD:** I will communicate with you about daily assignments, upcoming tests, and other class matters via Blackboard. Please make a habit of checking it regularly.
2. **REQUIRED TEXT:** N. Gregory Mankiw, *Principles of Microeconomics*. 4th edition. 2007. Paperback. I do not require any of the supplements, just the textbook. There are cheaper copies available on the web: just google “cheap college textbooks.”
3. **EXAMS:** There will be two exams (30% each) and a cumulative final exam (40%). If your final exam grade is higher than either of your other exam grades, I will substitute in the higher grade on the final for the lower exam grade when calculating your final grade in the course. **The final exam is from noon – 3 p.m. on Thursday, May 8.**
4. **CLASSROOM ENVIRONMENT:** People in large classrooms sometimes forget their manners. My pet peeve is when students engage neighbors in private conversations. This keeps both of you from paying attention, distracts students around you, and distracts the professor. Such behavior is uncivil and selfish, so please avoid it. In addition, my specific requests are for you to:
 - a. Please try to arrive on time. (I realize that students may be late because parking is difficult to find on Tuesday-Thursday mornings, so planning for this may help you to be on time.) I also ask that you fill in in the front rows when you arrive to class on time. If you do arrive late, quietly take a seat in the back.
 - b. Please note that food and drink (water is the exception) are not permitted in class.
 - c. Finally, this is a cell phone free area. Please turn off your cell phone when you enter class.

For a more detailed account of the Bryan’s School’s guidelines regarding student and faculty behavior, see http://www.uncg.edu/bae/faculty_student_guidelines.pdf.

5. **HONOR CODE:** The Honor Code is observed and enforced in this class.
6. **HOW TO GET A GOOD GRADE AND BE SUCCESSFUL FOR THE REST OF YOUR LIFE:** I’ll review some study tips for you on the first day.

COURSE OUTLINE

I. Introduction

- A. Some principles of economic thinking – scarcity, tradeoffs, and marginal analysis
- B. Economics as a science –
 - 1. Public policy and its evaluation
 - 2. Positive vs. normative economics
- C. An application – comparative advantage and the gains from trade

Readings: Mankiw – Chapters 1, 2 & 3

II. How a Market System Works – Supply and Demand Analysis

- A. Determinants of demand
 - 1. Verbal and graphical analysis
 - 2. Change in demand vs. change in quantity demanded
- B. Determinants of supply
 - 1. Verbal and graphical analysis
 - 2. Change in supply vs. change in quantity supplied
- C. Competitive market analysis – Equilibrium price and quantity
- D. Comparative statics – Shifting the curves

Readings: Chapter 4

III. Supply and Demand Analysis – Additional Topics

- A. Elasticity of demand – Determinants, computation, and relation to total revenue
- B. Elasticity of supply and other elasticities
- C. Elasticity applications
- D. Price-Fixing – Interference with the market mechanism
 - 1. Price supports – Agricultural policy and the minimum wage law
 - 2. Price Ceilings – Rent controls and gasoline

Readings: Chapters 5 & 6

IV. The Efficiency of Markets

- A. Consumer surplus
- B. Producer surplus
- C. Market efficiency
- D. Applications – International trade and taxation

Readings: Chapters 7, 8 & 9

V. Public Sector Economics

- A. Externalities and market inefficiency
- B. Solutions for the externalities problem
- C. Public goods and common resources
- D. The tragedy of the commons

E. The importance of property rights

Readings: Chapters 10 & 11

VI. Firm Behavior – Production and Costs

- A. The production function
- B. Costs of production
- C. Fixed and variable costs; average and marginal costs
- D. Costs in the short run and the long run

Readings: Chapter 13

VII. Market Structures – the Competitive Case

- A. The Role of Profits in a Market Economy
- B. Short run competitive equilibrium
- C. Long run competitive equilibrium

Readings: Chapter 14

VIII. Market Structures – Monopoly

- A. Monopoly production and pricing
- B. The welfare costs of monopoly
- C. Public policy towards monopoly
- D. Price discrimination

Readings: Chapter 15

IX. Market Structures – Oligopoly and Monopolistic Competition

- A. Oligopoly and game theory
- B. Policy towards oligopoly
- C. Monopolistic competition

Readings: Chapters 16 & 17

X. Markets for Inputs or Factors of Production

- A. Demand and supply in labor markets
- B. Human capital theory
- C. The economics of discrimination
- D. Poverty

Readings: Chapters 18, 19 & 20