

Microeconomics: from theory to practice

Syllabus – Block 1 2014 – August 31, 2014

1 Logistics

1.1 David Zetland

Title: I'm an assistant professor. Call me “Professor” or “David” but not “Doctor.” Thanks

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Office hours: Tuesday and Thursday 14:00-16:00 (shared with Principles) in Room 4.43

1.2 Timing

Classes: Tuesday (17:00-18:50) and Friday (15:00-16:50) in room 3.05, with a 10 minute break at :50

Dates: The first class is Tuesday, 26 Aug. The last class is Friday, 10 Oct

Final: Friday, 17 Oct 15:00–17:00

1.3 Technology

- I do not allow laptops or mobile phones to be used in class. It's best to take notes
- Audio recordings of all classes will be posted at kysq.org/teach

1.4 Assignments and grades

Homeworks: 20 percent (hard copy due at start of class on 9 & 16 Sep)

Blog post: 20 percent (-10 percent if no comment on others' posts)

Briefing/critique: 15 percent *each* (due online by end of day)

Final: 30 percent

1.5 Reading

Required: Schumacher, E.F. (1973), *Small is Beautiful*. Harper Perennial

Required: Assigned academic articles:

- Hayek, F.A. (1945). “On the Use of Knowledge in Society” in *American Economic Review* (35): 519-530
- Coase, R.H. (1937). “The Nature of the Firm” in *Economica* New Series 4(16): 386-405

Optional: Brue, Stanley L., Campbell R. McConnell and Sean M. Flynn (2013), *Essentials of Economics*, 3rd International Student Edition, Boston: McGraw-Hill/Irwin. ISBN 978-1-259-01-0604-3. This book may help students who want a structured reference to complement their class notes.

1.6 Blog post, Briefing and Critique

These assignments allow you to discuss and analyze the micro-economic foundations of topics.

For the blog post, you can write an analysis of a “microeconomic phenomena” of your choice. The submission is worth 20 percent of your course grade. You will get an A+ if/when I accept it for publication. This grade, however, will be reduced to an F for failure to leave a useful (critical, insightful, etc.) comment on at least ONE other post by a student. Your post should be between 300-500 words and grammatically correct. NB: You will get an F if I reject your submission twice for bad writing. The blog post should be emailed to me by midnight, 23 Sep.

For the briefing, I will choose a topic (TBA) that everyone will write about. Your task it to “brief” a busy politician on the pros and cons of an issue in less than 700 words. Three other students in the class will give an anonymous, critical evaluation of your briefing (headings: “what I learned,” “what I did not understand,” and “how to improve”) in 300 words or less. I will grade the briefings AND critical evaluations (15 points for each). The briefing is due by midnight, 30 Sep; critiques are due by midnight, 7 Oct.

2 Course description

Microeconomics begins with the study of individual decisions before moving to the interactions of individuals making decisions. (Macroeconomics tends to emphasize aggregated outcomes, taking decisions as given.) We will follow this route with an

emphasis on how people interact in strategic (game theory) and social (interdependency) environments. In each module, we will begin with the economic theory, explore its mathematical representation in algebra and figures, and then apply these ideas to real situations. The modules (described below) are demand, supply, markets, non-markets, and “open form” analysis.

2.1 Themes

The interaction of decisions under different conditions of market power. The impact of information, risk, uncertainty, time and space on these decisions.

2.2 Learning objectives

Students will master and apply basic economic concepts to everyday examples. Students will be able to analyze cases studies using cost-benefit analysis.

3 Modules

3.1 Demand (2 classes)

An individual’s demand for goods depends on their preferences, which determine the utility (or happiness) from consumption of a good. We can therefore say that “demand” is based on the pursuit of happiness, *as defined by the individual*. This simple foundation gets complicated quickly as we consider tradeoffs (via “indifference curves”) between goods that may substitute or complement each other. We will discuss normal, inferior and luxury (positional) goods from an income perspective. Students will use elasticities, constrained optimization, etc. in the homework.

Reading: Start Schumacher

3.2 Supply (2 classes)

A firm’s supply of goods depends on its costs, which determine the profits from producing a good. We can therefore say that “supply” is based on the maximization of profit, *as defined by the firm* (and sometimes by shareholders). Firms face tradeoffs in terms of their mix of inputs, choices in technology and product mix. We will discuss average, marginal and fixed cost curve in the short run and long run. Students will consider factors of production, cost accounting and break-even points in their homework.

3.3 Markets (3 classes)

Consumers and firms meet in the market, where the division of total surplus depends on market power, i.e., the number of players on either side of the market. We will study the distribution impacts of markets characterized by perfect competition, monopoly/monopsony or oligopoly. We will consider different models of pricing and price discrimination. This module will introduce regulation (i.e., government) and collective action (e.g., unions and cartels). Students will calculate equilibrium using reaction functions.

Reading: Coase

3.4 Society (3 classes)

The market sector is complemented by the non-market and missing market sectors when one steps back to consider the impacts of decisions on society. We will explore private, public, club and common pool goods from this perspective as well as the operation of non-market organizations (from family to bureaucracy) and the impact of interpersonal utility and externalities on behavior and social outcomes. This module brings us closer to everyday life in terms of market- and government failures. Students will compare prices and regulations (e.g., Pigouvian tax vs. Cap and trade) as means of aligning private and social payoffs.

Reading: Finish Schumacher

3.5 Imperfect information (3 classes)

The mathematics of microeconomics stop working when we depart certainty and probability and encounter uncertainty and asymmetric information. We will explore scenarios of risk and uncertainty to evaluate the impacts of discount rates and option values, respectively. Our discussions will touch on the insights from behavioral and institutional economics. Students will learn how to set limits between what economics can and cannot predict or model.

Reading: Hayek