University of Colorado
Department of Economics

Fall 2017
Microeconomic Principles 2010-800, TTh 2:00-3:15 pm, HUMN 1B50
Phil Graves

Content:

Microeconomic principles 2010 introduces you to the "economic way of thinking." The central fact that underlies economics is the fact of "scarcity." By this it is meant that our wants exceed the goods freely available from nature--hence choices must be made among the many things we want. This leads to the fundamental economic questions, narrowly defined, which face all societies: <u>What</u> to produce? <u>How</u> to produce? and <u>For Whom</u> to produce? But economics is really much broader in scope than this; it is really the study of wise decision-making in all areas of life. To draw a biological analogy: The "ecosystem" of microeconomics is competitive equilibrium, with supply and demand determining prices and quantities exchanged in each of a plethora of individual markets (interacting "forests"). The "trees" that make up each forest are the individual economic agents (households and firms, but other collections of people as well) whose "optimizing" behavior we shall study extensively. All sound decisionmaking involves comparison of benefits with costs--when benefits exceed costs for an action the decisionmaker is made better off by taking that action. While this all may seem rather dry and unclear at this time, economics is hardly the "dismal science" it has been tagged as (by T. Carlyle); rather I have high hopes that you will find it live and exciting.

Administrative Details

Note: Recitation classes will not meheiliu(n) -0.uncieiixn -0iiewiekiasee

Contact: e-mail: **philip.graves@colorado.edu** or **philipegraves@gmail.com** (I am usually online 24/7...definitely the "quick response" media)

NOTE: 1) The final exam date is: Tuesday December 19th 1:30pm-4:00 pm. All exams are in our usual classroom. This information is repeated at the end of the syllabus...there are no makeups...do not make plans (airline tickets, etc.) that involve leaving early. The Economics Department has recently instituted more stringent grading requirements that I must follow. The grade of IW has been completely eliminated, while the grade of IF will only be given in situations in which a student is unable to complete a course for reasons completely beyond their control. Such situations must be discussed with me immediately, or an F will be assigned for the course grade. If you have three or more finals in one day, it is the *last* final that is to be changed according to University policy, so that is likely to be relevant this semester for some of you.

2) Students with disabilities who qualify for academic accommodations must provide a letter from Disability Services (DS) and discuss specific needs with me, preferably during the first two weeks of class. DS determines accommodations based on documented disabilities (303-492-8671, Willard 322, www.colorado.edu/sacs/disabilityservices). Campus policies (including those involving the new student honor code, plagiarism, classroom behavior policies, and the like) can be viewed at: http://www.colorado.edu/policies/index.html. Direct any questions you have about these policies to me or to our very competent and helpful advisors in the Economics Department.

3)Campus policy regarding religious observances requires that faculty make every effort to reasonably and fairly deal with all students who, because of religious obligations, have conflicts with scheduled exams, assignments or required attendance. In this class, it is unlikely that this will be a problem, since I do not take attendance in any event. Should we be voting for a test date that conflicts

*unforeseen policies can affect the economy in the short run.

Science, "realism," and models. Logical pitfalls (fallacy of composition, post hoc ergo propter hoc, wishful thinking and secondary effects or law of unintended consequences). Scarcity implies choice which, in turn, implies opportunity costs. The "market" as one means of solving problems stemming from scarcity (spontaneous order versus hierarchy). The central economic questions we will examine are What, How, For Whom, (and When)? Consumer and firm goals and the spontaneous coordination provided by the competitive market. Property rights and incentives. Positive and normative economics (benefits and costs and their distribution). Efficiency (Pareto, Kaldar) and equity. Why economists disagree (theory, estimates, and values). The gains from trade and advantage. Introductory illustrations: Determinants of the number of children to have, minimum wages, progressive income taxation, international trade. Graphs: production possibility frontier and circular flow. Philosophical issues (What is "value?").

II. DEMAND AND SUPPLY--THE BASICS

Demand, Supply, and Market Equilibrium (maximizing and coordinating). The "shifts" versus "movements along" confusion clarified. From individual to market demand. Price controls. Elasticity. Government policy applications (farm policy, rent controls, minimum wages, tax incidence, prohibition of goods). One reason why some don't like supply and demand. Intertemporal resource allocation and the price system: interest, compounding, discounting and the role of entrepreneurs and speculators.

III. DEMAND AND SUPPLY--EFFICIENCY AND WELFARE

Consumer surplus, producer surplus, and the gains from voluntary trade. Demand curve as willingness-to-pay. Supply curve as marginal cost, hence willingness-to-sell. Consumer surplus and the paradox of value. A rationale for income transfers? Application: Incidence and welfare cost of taxation. Application: International trade. Theory of comparative advantage. S&D analysis of trade and tariffs. Developing countries. Exchange rates and the international financial system (probably will not get to much on this).

IV. CONSUMER CHOICE AND DEMAND

Note: we will do this material a bit differently from the book. Preference assumptions. Utility and the law of diminishing marginal utility. Rule of rational life. Can consumers do this (animal experiments)?

V. PUBLIC ECONOMICS

Externalities, public goods (including income distribution), common resources, Public choice theory: Will government do better? ***New theoretical material here (on public goods provision and optimal governmental institutions...not in micro books, yet!)*** The market "wins"--but remember that giving the most of what people want (apart from the public goods problem raised) does not elevate those preferences... Public policy: car regulations, education, housing, cigarettes. Optimal tax systems.

(first midterm--after this material--the date will be voted on in class, with an eye to "optimizing" the date selected)

VI. PRODUCER CHOICE AND SUPPLY

Introduction: Business organization. The production function, marginal products, and the law of diminishing marginal product. Time periods. Costs: Fixed, Variable, Total, Average, and Marginal.

A. The firm in perfect competition and supply. The abstract model assumptions. Three cases: profits, losses, shut-down. Market supply. Time periods, again. Efficiency versus equity again.

B. The monopoly firm: definition and bases. When marginal revenue is not equal to price. Equity and efficiency implications fo monopoly and public policy (regulation). Price discrimination.

C. Other market structures--oligopoly and monopolistic competition (we will go light on this--see class notes)

(second midterm--rather late in course--will also be voted on, but usually in the 2nd week prior to the end of the semester)

VII. INPUT MARKETS, INCOME DISTRIBUTION, SOCIAL ISSUES

Marginal productivity theory. Compensating differentials. Discrimination. Human capital. Land, natural resources, and "economic rent." Capital, interest, and profits. Inequality and poverty. Environmental and international trade issues.

(**Final exam: Tuesday December 19th, 1:30pm-4:00 pm, in our regular classroom)**