



B.E. International Program

Faculty of Economics, Thammasat University



Course Outline

EE 311 Microeconomics Theory Semester 2/2013 (January – May, 2014)

Number of credits 4 credits

Lecture Time Wednesdays & Fridays ; 11 AM – 1.00 PM

Lecture Venue Room 303 (for Section 046401) and
Room 304 (for Section 046402), 3rd floor, Faculty of Economics,
Thammasat University, Tha Prachan campus

Instructor Assoc. Prof. Dr. Chanin Mephokee (Section 046401)
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Course Description: Demand and supply analysis, consumer behavior and demand theory, production and cost of production, different types of product market structures, price determination in factor markets, decision-making over time, general equilibrium analysis, and introductory welfare economics and public policy.

Prerequisites: EE 211 and MA 216

Hour Employed per Semester

Lecture	Supplemental Classes	Laboratory/ Field Work/ Internship	Self-Study
64 hours	0 hours	0 hours	128 hours

Student Evaluation:

Homeworks	5%
Mid-term examination	35% (Wednesday, March 5, 2014 at 11.00 AM–13.00 PM)
Final examination	60% (Monday, May 12, 2013 at 09.00 AM – noon)

Main Textbooks

There are several textbooks that cover similar material. The first three books will be used extensively, but, for many topics, they can be used interchangeably with the other listed books. It is important to realize, however, that no single textbook contains **all** the material covered in this course. It is therefore essential that you read several sources, and that you review the concepts listed under “REVIEW” on your own, so that our time can be more valuably spent on new topics.

- 1) Pindyck, Robert S. and Rubinfeld, Daniel L., *Microeconomics*, (8th Ed.) New Jersey: Pearson Education, Inc., 2013. (Earlier editions are applicable.)
- 2) Varian, Hal *Intermediate Microeconomics*, (5th ed.) New York: Norton, 1999.
- 3) Martin J. Osborne, *An Introduction to game theory* (Oxford University Press, August 2003)
- 4) Besanko, D. and R. Braeutigam, *Microeconomics*, (4th ed) New York: John Wiley & Sons, 2011.
- 5) Salvatore, Dominick, *Microeconomics: Theory and Application*.(4th ed.) New York: Oxford University Press,2003.
- 6) Frank, Robert H. *Microeconomics and Behavior*, (8th ed) New York: McGraw-Hill / Irwin, 2010.
- 7) Perloff, Jeffery M. *Microeconomics*, (6th ed.) Boston: Addison - Wesley, 2012.
- 8) Miller, R.L., and R.P.H. Fische. *Microeconomics: Price Theory in Practice*, New York: Harper Collins, 1995.
- 9) Hirshleifer, J., Glazer, Amihai and Hirshleifer, D., *Price Theory and Applications: Decisions, Markets, and Information*, (7th ed), New York: Cambridge University Press, 2005.
- 10) Griffiths, Alan and Stuart Wall, *Microeconomics: Theory & Applications*, London: Longman, 1996.
- 11) Nicholson, Walter, *Intermediate Microeconomics and Its Application*, (9th ed.) Ohio: South-Western, 2004.

Note: additional readings will be assigned during the semester, and readings on specific topics are given in the “boxes” under “Teaching Plan”.

Supplementary Reading (for fun):

Dan Ariely, *The Upside of Irrationality: The Unexpected Benefits of Defying Logic at Work and at Home*, Harper; 1 edition (June 1, 2010)

Dan Ariely, *Predictably Irrational, Revised and Expanded Edition: The Hidden Forces That Shape Our Decisions*, Harper Perennial; 1 Exp Rev edition (April 27, 2010)

Dan Ariely, *The Honest Truth About Dishonesty: How We Lie to Everyone--Especially Ourselves*, Harper Perennial; Reprint edition (June 18, 2013)

Daniel Kahneman, *Thinking, Fast and Slow*, Farrar, Straus and Giroux; Reprint edition (April 2, 2013)

Michael Sandel, *What Money Can't Buy: The Moral Limits of Markets*, Farrar, Straus and Giroux; 1 edition (April 24, 2012)

Michael Sandel, *Justice: What's the Right Thing to Do?*, Farrar, Straus and Giroux; Reprint edition (August 17, 2010)

Robert H. Frank, *The Winner-Take-All Society: Why the Few at the Top Get So Much More Than the Rest of Us*, Penguin Books (September 1, 1996)

Robert H. Frank, *The Economic Naturalist: In Search of Explanations for Everyday Enigmas*, Basic Books (April 8, 2008)

Levitt, Steven D. and Stephen J. Dubner, *Freakonomics*, New York: Harper Torch, 2006.

Harford, Tim, *The Undercover Economist: Exposing Why the Rich Are Rich, the Poor Are Poor--and Why You Can Never Buy a Decent Used Car!*, Oxford University Press, 2006.

Marshall Jevons, *Murder at the Margin*, New Jersey: Princeton University Press, 1978, 1993.

The Fatal Equilibrium, New York: Balantine Books, 1985.

A Deadly Indifference, New Jersey: Princeton University Press, 1995.

Movies:

“A Beautiful Mind” Universal Studios, 2001.

“An Inconvenient Truth”, 2006.

“Inside Job”, 2010.

“Norma Rae” Trimark, 1979, video released 2001.

“Speed” Twentieth-Century Fox, 1994.

“The Rainmaker”, Paramount 1997

“Erin Brockovich” Universal, 2000.

“Hero” Miramax, 2004.

“Day After Tomorrow”, Fox 2004.

Some Useful Links

Student Resources for Frank’s text:

http://highered.mcgraw-hill.com/sites/0073375942/student_view0/index.html

Nobel Prize in Economic Sciences:

http://nobelprize.org/nobel_prizes/economics/shortfacts.html

Robert H. Frank: <http://www.robert-h-frank.com/>

Econ Ph.D. Net: <http://www.econphd.net/>

Hal R. Varian: <http://people.ischool.berkeley.edu/~hal/>

The Official Paul Krugman Web Page: <http://web.mit.edu/krugman/www/>

The Undercover Economist: <http://timharford.com>

The Airport Economist : <http://www.theairporeconomist.com>

The Economist Magazine: <http://www.economist.com>

Interactive Excel Exercises:

There are 11 Interactive Excel Exercises located in
<http://econ.tu.ac.th/class/archan/CHAYUNT/EC311/>

Each exercise contains a mathematical model in which the user can change some parameters that determine the behavior of model to change the equilibrium results and answer accompanies questions. Each exercise also includes a short explanation worksheet to help the user to understand the underlying theory related to the exercise. Where available, the name of the relevant interactive excel exercise will be given in “boxes” under “Teaching Plan”.

Teaching Plan:

1. Introduction

- 1.1 Demand & Supply Model (2 hours)
- 1.2 Concept of Consumer Surplus and Producer Surplus
- 1.3 Elasticity

Review: Concepts of consumer and producer surplus, Elasticity

Read: Pindyck & Rubinfeld Chs. 2 and 9, Frank Ch. 2, Salvatore Ch.2, Perloff Chs.2,3,9, Miller & Fische Ch. 3, Besanko & Braeutigam Chs. 2 & 9

2. Consumer Behavior and Demand Theory

- 2.1 Indifference Curve Analysis (2 hours)
 - assumptions
 - analysis of goods, bads, neuters

Review: Properties of indifference curves.

Read: Pindyck & Rubinfeld Ch. 3, Salvatore Ch.3 (3.1-3.2), Perloff Ch.4 & App. 4A, Frank Ch.3, Hirshleifer Ch. 3(pp.70-73), Miller & Fische Ch.5, Besanko & Braeutigam Ch. 3 & 4. Griffiths & Wall Ch.1 (pp.-33)

2.2 Consumption equilibrium and changes in equilibrium (8 hours)

- consumption equilibrium and duality
- changes in income
- changes in price: income effect and substitution effect
- compensated and uncompensated demand curves
- market demand
- network externalities
- application: vouchers vs. income transfers
- revealed preferences, index numbers, and welfare changes

Review: Construction of demand curves, Elasticities.

Read: Pindyck & Rubinfeld Ch. 4, Appendix; Salvatore Ch 3 (3.4-3.5) Chs.4 -5, Perloff Ch. 5, Frank Ch.4-5, Appendix; Hirshleifer Ch.4,Ch.5 (pp.117-152), Besanko & Braeutigam Ch. 5, Miller & Fishe Ch.4 (pp.119-120); Appendix 5A and Ch.6, Griffiths and Wall Ch.1 (pp.33-50), Ch.2, (pp.55-68) , Varian Ch. 7.8 & Ch. 8.

Do: The Interactive Excel Exercise in “02IncomeSubstitutionEffect.xls” and “03IndexNumber.xls” files.

2.3 Intertemporal consumption (consumption overtime) (4 hours)

- time preference and time value of money
- cases: regular income, productive opportunities, inheritance
- supply of saving
- consumption and pricing of durable goods and non-renewable resources

Read: Salvatore Ch.16, Frank Ch.15 Appendix, Perloff Ch. 16, Hirshleifer Ch.14, Miller & Fishe Ch.5 (pp.617-632), Pindyck & Rubinfeld Ch.15, Varian Ch. 10.

Do: The Interactive Excel Exercise in “04Intertemp.xls” file.

2.4 Consumption under uncertainty (6 hours)

- expected utility
- preference toward risk
- gambling and insurance

Read: Pindyck & Rubinfeld Ch.5, Salvatore Ch.6, Perloff Ch.17 (17.1-17.2), Frank Ch.6 (pp.198-210), Miller & Fishe Ch.5 (pp.644-649), Griffiths & Wall Ch.3 (pp.102-113), Besanko & Braeutigam Ch. 15 (15.1-15.4), Varian Ch. 12

3. Transactions Costs and Institutional Economics (3 hours)

- costs of market exchange
- components of transactions costs
- optimal search
- meaning of “institutions”
- origin of firms, an example of an institution
- rules, behavior and objectives of the firm
 - profit maximization

- utility maximization and satisficing

Read: Miller & Fishe Ch.7, Frank Ch.6 Appendix, Griffiths and Wall Ch.5, Baumol W.J.Economic Theory and Operations Analysis, 4th ed.(Prentice – Hall) 1977, Ch.15, Kreps, A Course in Microeconomic Theory, (Harvester Wheatsheaf) 1990, Ch. 20, Coase “The Nature of the Firm”, *Economica*, 4:386-405, 1937, Stigler, “The Economics of Information”, *Journal of Political Economy*, 69:3, 1961.

4. Production and Costs

(4 hours)

4.1 Production equilibrium

- least cost combination
- duality in production
- relationship between product curves and cost curves

4.2 Production functions and costs

- homogeneous production functions and their properties
- returns to scale
- elasticity of substitution

Review: All product and cost curves; e.g. AP, MP, TP, TC, AC, MC.

Read: Pindyck & Rubinfeld Chs.6-7, Salvatore Chs. 7-8, Perloff Ch.6-7, Frank Chs.9-10
Miller & Fishe Chs.8-9, Griffiths & Wall Ch.4, Besanko & Braeutigam Ch. 6-8

Do: The Interactive Excel Exercise in “05Prod&Cost.xls” file.

5. Product Markets

5.1 Perfectly competitive markets

(1 hour)

- long-run equilibrium and efficiency

Review: Characteristics of perfectly competitive markets, price and output under perfect competition.

Read: Pindyck & Rubinfeld Ch.8, Hirshleifer & Glazer Ch.7 (pp.175-186), Salvatore Ch.9, (pp.240-248), Frank Ch.11, Miller and Fishe Ch.10, Griffiths and Wall Ch.6, Perloff Ch. 8, Besanko & Braeutigam Ch. 9.

Do: The Interactive Excel Exercise in “06Competitive.xls” file.

5.2 Monopoly

(6.5 hours)

- meaning of market power
- price and output determination
- monopoly and resource allocation
- regulation of monopolies and contestable markets
- other pricing strategies
 - price discrimination: degrees and hurdles
 - two-part tariffs and other strategies
- multi-plant monopoly

Review: Simple monopoly

Read: Pindyck & Rubinfeld Ch.10 (10.1-10.4 and 10.7) & Ch.11, Perloff Ch.11,12; Salvatore Ch.10 & Ch.13, Frank Ch.12, Miller & Fische Ch.11-12, Hirshleifer Ch.8, Griffiths and Wall Ch.7, Besanko & Braeutigam Ch. 11.1-11.6 & 12.

Do: The Interactive Excel Exercise in “07Price Discrim.xls” file.

5.3 Monopolistic competition

(1.5 hours)

- characteristics of monopolistic competition
- equilibrium price and output in the short run and long run
- implications on resource allocation

Read: Frank Ch.13, Pindyck & Rubinfeld Ch.12.1, Perloff 13.7, Besanko & Braeutigam Ch. 13.5; Miller & Fische Ch.13 (pp.515-523), Salvatore Ch. 11 (11.1-11.2)

5.4 Oligopoly

(10 hours)

- meaning of oligopoly
- various models of oligopoly:
 - kinked demand
 - price leadership or dominant firm
 - Cournot, Bertrand and Stackelberg
 - collusion and cartel
- game theory and its application to oligopolistic markets
 - introduction
 - equilibrium: Dominant strategy, Nash equilibrium, Maximin
 - Prisoners' dilemma
 - sequential games
 - Strategic moves: entry deterrence

Read: Pindyck and Rubinfeld Ch.12.2-12.6 & Ch.13, Osborne, Hirshleifer Ch.10, Salvatore Ch.11 (11.3-11.8) Ch. 12, Frank Ch.13, Miller & Fische Ch.13 (pp.526-557), Perloff Ch. 13,14; Besanko & Braeutigam Ch. 13.1-13.4 & 14; Chiang, Fundamental Methods of Mathematical Economics, Ch. 21.

Do: The Interactive Excel Exercise in “08Duopoly.xls” file.

Watch: “A Beautiful Mind”

6. Factor Markets

6.1 Competitive factor markets

(3 hours)

- demand for a factor (cases of one variable input and several variable inputs)
- supply of inputs to a firm and market supply of inputs
- price and quantity of factor employed

Read: Pindyck & Rubinfeld Ch.14.1-14.2, Hirsheifer Ch.11, Salvatore Ch. 14, Frank Ch.14, Miller & Fische Ch.14 (pp.565-592), Griffiths & Wall Ch.9 (pp.379-383), Perloff Ch.5 (5.5), 15 (15.1).

6.2 Factor Markets with Monopoly and Monopsony Power (2 hours)

- marginal revenue product
- marginal and average factor cost
- price and quantity of factor employed

Read: Pindyck and Rubinfeld Ch. 10.5-10.6 & Ch.14.3, Hirshleifer Ch.11 (pp.333-341), Frank Ch.14, Miller & Fische Ch.14 (pp.595-599), Griffiths & Wall Ch.9 (pp.383-385), Salvatore Ch.15, Perloff Ch. 15 (15.2, 15.3); Besanko & Braeutigam Ch. 11.7.

Do: The Interactive Excel Exercise in “10Monopsony.xls” file.

6.3 Factor Markets with Monopoly Power of Seller of Input (2 hours)

- monopoly power over the wage rate
- price and quantity of factor employed
- bilateral monopoly

Read: Pindyck & Rubinfeld Ch.14.4, Hirshleifer Ch.12 (12.4) (pp.356-363), Salvatore Ch.15, Miller & Fische Ch.14 (pp.599-606)

6.4 Economic Rent (1 hour)

- meaning of economic rent
- rent-seeking behavior and resource allocation

Read: Pindyck and Rubinfeld Ch.14 (pp.529-532), Frank Ch.15 (pp.569-70), Hirshleifer Ch.12 (12.7), Miller & Fische Ch.14 (pp.588-589), Griffiths & Wall Ch.9 (pp.400-404), Besanko & Braeutigam Ch. 9.5

7. General Equilibrium Analysis and Welfare Economics

7.1 General Equilibrium: consumption, production, and exchange (3 hours)

- welfare criteria
- Pareto optimum and efficiency
- perfect competition and Pareto optimum
- welfare maximization and Pareto optimum conditions

Read: Pindyck & Rubinfeld Ch.16 (16.1-16.4, 16.6), Hirshleifer Ch.15 (15.2), Miller & Fische Ch.16, Salvatore Ch.17, Frank Ch.16, Griffiths & Wall Ch.9 (pp.421-433), Perloff Ch. 10; Besanko & Braeutigam Ch. 16.1-16.4.

Do: The Interactive Excel Exercise in “11EdgeworthBox.xls” file.

7.2 Market Failure and Imperfections (5 hours)

- imperfect competition, externalities, public goods, and asymmetric information
- correction of failure and imperfections: government or private sector

Read: Pindyck & Rubinfeld Ch.16 (16.7) & Chs.17-18, Hirshleifer Ch.15 (15.3), Miller & Fische Ch.17, Salvatore Chs.18-19, Frank Chs.17-18, Griffiths & Wall Ch.9 (pp.433-437) & Ch.11, Perloff Ch. 18,19, Besanko & Braeutigam Ch. 17

Watch: “An Inconvenient Truth”, “Inside Job”

Grading Criteria:

A	= 4.0 (90 – 100)	Excellent
B+	= 3.5 (85 – 89)	Very Good
B	= 3.0 (80 – 84)	Good
C+	= 2.5 (70 – 79)	Fair
C	= 2.0 (60 – 69)	Adequate
D+	= 1.5 (55 – 59)	Poor
D	= 1.0 (50 – 54)	Very Poor
F	= 0.0 (<49)	Fail

Academic Honesty:

You are expected to be honest in all of your academic work. Copying is plagiarism and will be treated as an honor code violation. Potential sanctions include failure in the course: “F” and suspension from the university.

Important Dates

Class begins August 17, 2014

Adding and Dropping Course January 13 – 27, 2014

Midterm Exam Wednesday, March 5, 2014; 11.00 AM – 1.00 PM

Course Withdrawal with “W” March 19-24, 2014

Last day of class May 2, 2014

Final Exam Monday, May 12, 2013; 9.00 AM – noon

The purpose of studying economics is not to acquire a set of ready-made answers to economic questions, but to learn how to avoid being deceived by economists.

Joan Robinson

(October 31, 1903 in Surrey – August 5, 1983 in Cambridge)