EE211

Principles of Microeconomic

Weerawat Phattarasukkumjorn

Semester 2/2020

Course details

› Schedule

Section 2: Tue, Thu 08.00 – 09.30
Moodle class code: **4596**

› Instructor

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Communication through LINE is acceptable **only in class group**!

› Evaluation

Homework and assignment	10 points
Midterm exam	40 points
Final exam	50 points

› Exam date and time

Midterm: Tue, Mar 16 from 09.00 – 11.00 (2 hours)
Final: Mon, May 24 from 09.00 – 12.00 (3 hours)

Assumed scarcity

- Resources are scarce.
- Choices are available.
- Decisions are to be made

Therefore, we have basic problems in economics.

Basic problems in economics

- What to produce?
  How do we know what are wanted in our society?
- How to produce?
  What is the incentive to produce?
- To produce for whom?
  How do we distribute final product?

So, how do we solve these basic problems?

Rough categorization of systems

› Central Planning

A centralized institution decides what, how to produce and holds the authority to allocate all the resources.

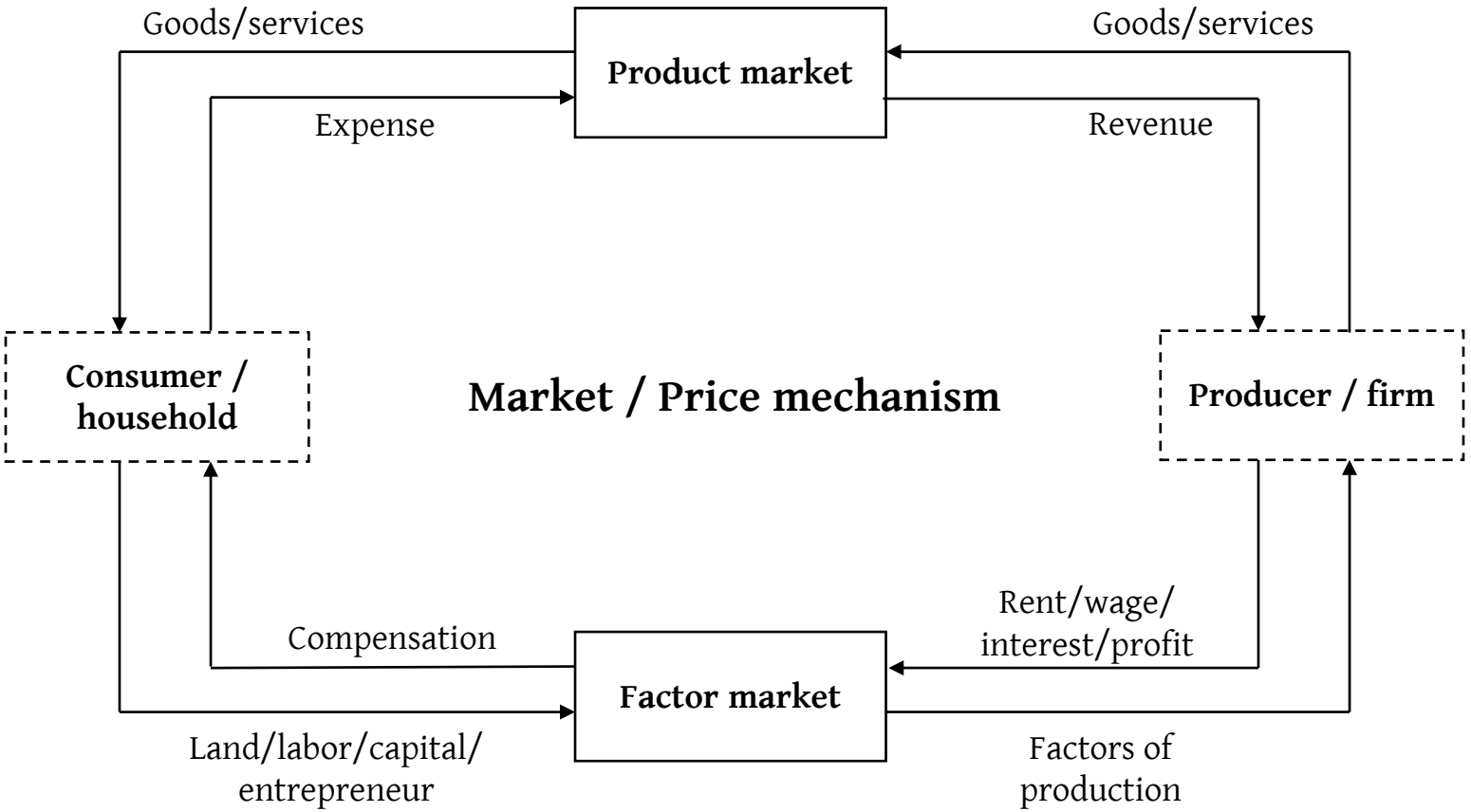
› Mixed economy

Private firms decide what and how to produce. Market mechanism is the tool for resource allocation. Economic and political institution can interfere for specific reasons.

› Market oriented

Private firms decide what and how to produce. Market mechanism is mainly the tool for resource allocation. Very few market intervention or none (but very unlikely).

Circular Flow



Opportunity cost

Definition 1.1

***The opportunity cost**, or **alternative cost**, of making a particular choice is the value of the most valuable choice out of those that were not taken.*
When an option is chosen, the opportunity cost is the "cost" incurred by not enjoying the benefit associated with the best alternative choices.

Consider the opp. cost for these decisions made.

› Working instead of studying in a university.

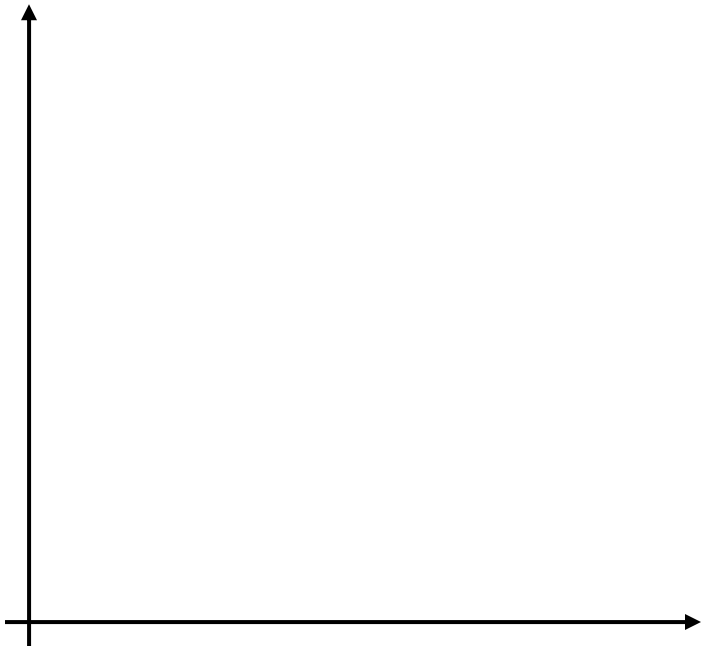
› Watching P'Aek HeartRocker live instead of reviewing economics.

› Seeing movies with boyfriend/girlfriend.

Opportunity cost

Choices	Activities	Benefit	Opportunity cost
Example 1: a healthy boy			
1	Having organic salad	320	
2	Having BBQ	200	
Example 2: an enjoy-eating boy			
1	Having organic salad	-50	
2	Having BBQ	150	
Example 3: a rich boy			
1	Study economics hard	35,000	
2	Practice programming	20,000	
3	Register with a life coach	5,000	
4	Study investment	10,000	

Production possibility curve

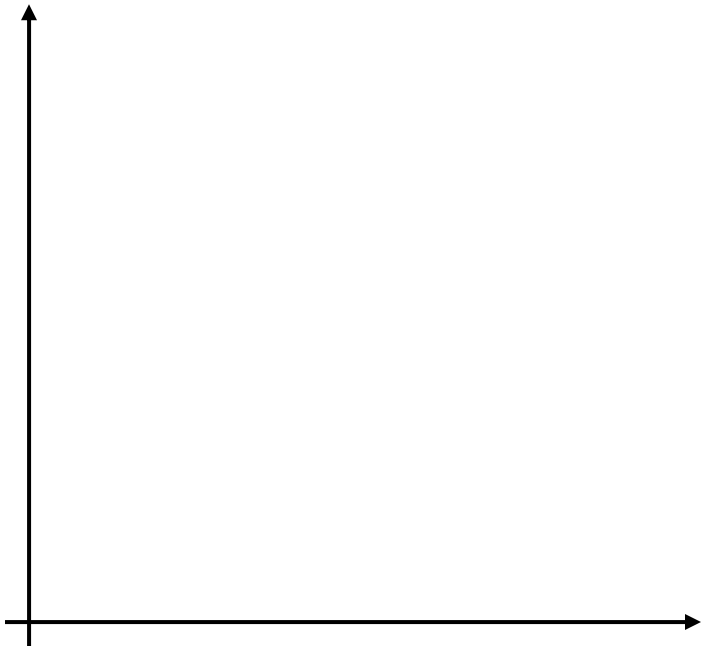


Supposed that the total resources in a community can be used to produce 100 cars or 150 tanks. Cost for both commodities is perfectly substitutable.

› Multiple choices and infeasible choice.

› What would happen if more resources are later found?

Production possibility curve



Supposed now cost for both commodities is ***not*** perfectly substitutable.

› How this affects the PPC?

Content (Pre-midterm)

› Chapter 2: Interaction within a market

Focusing on demand, supply, equilibrium, elasticity, surplus and government intervention in a perfect competition market.

› Chapter 3: Consumer theory

Study how consumers decide when choosing (a) commodities or services, their criteria or condition how to choose for their best interest to find an equilibrium. Eventually, this will lead to how we can derive an individual demand.

Content (Post-midterm)

› Chapter 4: Production and cost

Similar to consumer, we turn our focus to producer, following the same logic of finding the optimal condition for producer to get their best interest. Firstly, we need to define a nature of production and cost.

› Chapter 5: Product/service market

Only production and cost does not cover the whole picture, we need to study producer's revenue. Unfortunately, gaining revenue is different for each type of market. This chapter will focus on how they differ.

› Chapter 6: Factor market

Closely linked to product/service market, producer's cost is derived from factors of production. How competitive factor market is can be crucial to producer's best interest condition.

› Chapter 7: Market failures

Lastly, there are so many situations market cannot efficiently allocate resources. We study real-world scenarios how market can totally fail to deliver.

What are important for out study?

› Definitions

Study and stick to the definitions as much as you can. In many cases, it would help us having clear discussion what exactly we are talking about.

› Assumptions

You might notice that studying economics can be out-of-this-world. However, conclusions drawn by an economist, especially mathematical one, is **"true"** if their assumptions hold.

› Ceteris Paribus (other things being equal)

To reduce complications in our study, we only study a change in one variable at a time, while keeping others intact.

Chapter number

Sub-chapter

How to use this handout?

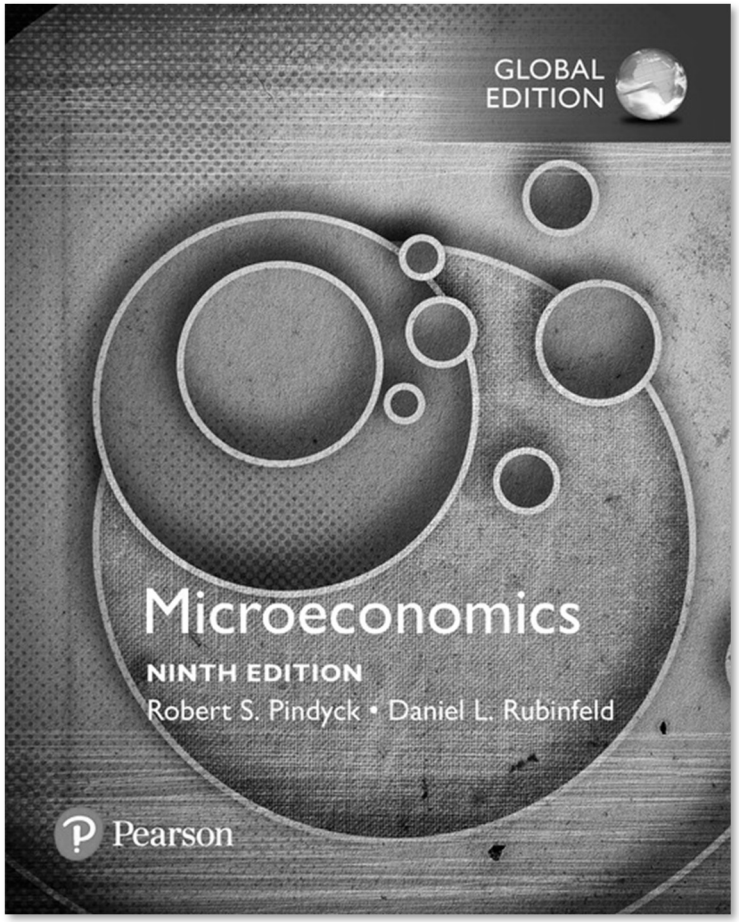
Main topic

Illustration or content

Illustration or content

Content

Main textbook



› Pindyck, R. S., & Rubinfeld, D. L. (2018). **Microeconomics**. Upper Saddle River, N.J: Pearson/Prentice Hall.