Course Outline

EE 311 Microeconomic Theory

Semester: 1/2011 (August – December 2011)

Instructor: **Dr. Sirilaksana Khoman (with Dr. Chayun Tantivasadakarn)**
Office: 433 Fourth floor
e-mail address: siri@econ.tu.ac.th
EE311SK@gmail.com (please use this one)

Class Schedule: **Mondays, 09:30 – 12:00 hrs.**
Fridays, 09:00 – 11:00 hrs.
Class Room: Room 304, Faculty of Economics.

Course Description: Demand and supply analysis, consumer behavior and demand theory, production and cost of production, transactions and institutional economics, 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.

Method of Instruction: There are a total of 64 class-hours for this course. Unfortunately this semester, due to the many holidays and scheduling conflicts, **4.5 hours per week have been scheduled**. But we might also have three hours on Mondays with a (short) break, to make up for lost time. This will be a challenge for everyone, but we should use our time wisely. This is optimisation under constraints. Class activities in each week will consist of lectures, class discussions, exercises and a few quizzes (which will each be 15 minutes in length during class time. Details will be given during class.

Student Evaluation:

Class participation and quizzes	5%
Homework and exercises	No formal points given
Mid-term examination	35% (Friday 30 September 2011, 09:00 - 11:00 hrs.)
Final examination	60% (Tuesday 6 December 2011, 09:00 - 12:00 hrs.)

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 Daniel E. Rubinfeld. *Microeconomics,* (5th ed.), New Jersey: Prentice -Hall, 2005
2) Frank, Robert H. (6th ed.). *Microeconomics and Behavior,* New York: McGraw-Hill, 2006.
3) Salvatore, Dominick, *Microeconomics,* (4th ed.), New York: Oxford University Press. 2003.
4) Perloff, *Microeconomics*, Boston: Addison-Wesley, 2007.
5) Varian, Hal *Intermediate Microeconomics,* New York: Norton, 2002
6) Eaton, B.C. *Microeconomics*, Toronto, Ontario: Prentice-Hall, 2002.
7) Browning, E.K. *Microeconomics,* New York: Wiley, 2004.
8) Miller, R.L., and R.P.H. Fishe. *Microeconomics: Price Theory in Practice,*New York: Harper Collins, 1995.

9) Hirshleifer, Jack *Price Theory and Applications* (6th ed.), New Jersey: Prentice - Hall, 1998.
10) Griffiths, Alan and Stuart Wall, *Microeconomics: Theory & Applications*, London: Longman, 2000
11) Nicholson, Walter, *Intermediate Microeconomics and Its Application*, (8th ed.), Dryden Press, 2002.

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)**:**

Levitt, Steven D. and Stephen J. Dubner, *Freakonomics*, New York: Harper Torch, 2006
Levitt, Steven D. and Stephen J. Dubner, *SuperFreakonomics*, New York: HarperCollins, 2009
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
J. Rawls, *A Theory of Justice*. Cambridge, Mass: Harvard University Press, 1971
Harcourt, Tim, *The Airport Economist*, Crows Nest: Allen & Unwin, 2008

Movies:

"A Beautiful Mind" Universal Studios, 2001.
"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.
"An Inconvenient Truth", 2006.
TV Series: "Fairly Legal", 2011.

Teaching Plan:

1. Introduction

1.1 Why Study Microeconomics? (6 hours)
Application of Demand and Supply concepts: government intervention

2. Consumer Behavior and Demand Theory

2.1 Indifference Curve Analysis (2 hours)

- assumptions
- analysis of goods, bads, neuters

2.2 Consumption equilibrium and changes in equilibrium (7 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

- index numbers and welfare changes

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

2.4 Consumption under uncertainty (3 hours)

- expected utility
- preference toward risk
- gambling and insurance

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

4. Production and Costs (3 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

5.Product Markets

5.1 Perfectly competitive markets (1 hour)

- long-run equilibrium and efficiency

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

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

5.4 Oligopoly (9 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: Nash equilibrium, Maximin saddlepoint
  - Prisoners' dilemma
  - sequential games
  - entry deterrence

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

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

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

6.4 Economic Rent (1 hour)

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

7. General Equlibrium 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

7.2 Market Failure and Imperfections (5 hours)

- externalities, public goods, decreasing costs and imperfect information **(**and anti-competitive practices in contractual licenses)
- correction of failure and imperfections: government or private sector

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