B.E. International Program

Faculty of Economics, Thammasat University

Course Syllabus

EE 211 PRINCIPLES OF MICROECONOMICS

Semester: 1/2011 (August – December 2011)

Instructors: Dr. Thanet Mekjamroen (Group A)
Room 521, 5th Floor,
Email: thanet@econ.tu.ac.th

Dr. Phongthorn Wrasai (Group B)
Office: Room 471, 4th Floor
E-mail: pwrasai@econ.tu.ac.th, pwrasai@gmail.com

Lecture Time: Tuesdays & Thursdays, 11:00-12:30

Lecture Venue: Room 303, Faculty of Economics (Group A)
Room 304, Faculty of Economics (Group B)

Course Description:

The principles of microeconomics regarding value, price, resource allocation, introduction to theories of consumption and production with an emphasis on factors determining demand and supply of goods and services, determination of prices and efficiency of resource allocation in perfectly and imperfectly competitive markets; Basic theories regarding factor market and introductory concepts of market failures.

Evaluation:

Quizzes	10 %
Midterm Exam	40 %
Final Exam	50 %

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 and suspension from the university.

Exercises and Quizzes:

To stimulate active learning, we plan to give an exercise twice a month. An exercise will be given once a topic is complete and test on the topic will be held on the following week. Information concerning exercises and quizzes is as below:

Topic	Released Date of Exercises	Dates and Time on Quizzes
Demand, Supply, and Equilibrium	Thursday, August 11,	Thursday, August 18, 12.10-12.30
Elasticity and Its Application Consumers, Producer Surplus, and the Efficiency of Markets	Thursday, August 25	Thursday, September 1, 12.10-12.30
Applications on Demand, Supply, and Government Policies	Thursday, September 8	Thursday, September 15, 12.10-12.30
The Theory of Consumer Choice	Thursday, October 6	Thursday, October 13, 12.10-12.30
Production and Cost in the Short-Run	Thursday, October 20	Thursday, October 27, 12.10-12.30
Production and Cost in the Long-Run	Thursday, November 3	Thursday, November 10, 12.10-12.30
Market Structures	Thursday, November 17	Thursday, November 24, 12.10-12.30

Important Dates:

Class Begins	Tuesday, 9 August
Adding and Dropping Course	8-22 August
Midterm Exam Period	26 September-1 October (No Lectures)
Midterm Exam	**Tuesday 27 September, 10:30-13:30 (3 hours)**
Course Withdrawal	13-16 October
Class Ends	Tuesday 29 November
Final Exam	**Monday 6 December, 09:00-12:00 (3 hours)**

Recommended Texts:

Frank, R.H. ***Microeconomics and Behavior***. 8th ed. McGraw-Hill, 2010.
Krugman, P. and Robin Wells, ***Microeconomics***. 2nd ed. Worth Publishers, 2008. (Hereafter, KW)
Lipsey, R.G., C.T.S. Ragan, and P.A. Storer. ***Economics,*** 13th ed. Pearson Addison Wesley, 2008.

Mankiw, N.G. ***Principle of Microeconomics***, 5th ed. Thompson South-Western, 2009.

Note: The list is provided in alphabetical order; it does not indicate which one is preferred.

Supplementary Reading (for fun)**:**

Frank, Robert. ***The Economic Naturalist: In Search of Explanations for Everyday Enigmas*** (Paperback). Basic Books (April 7, 2008). More information about his nice writings, visit **http://www.robert-h-frank.com/links.html**

Harcourt, Tim, ***The Airport Economist,*** Crows Nest: Allen & Unwin, 2008. (URL: http://www.theairporteconomist.com/)

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!*** Random House Trade Paperbacks (January 30, 2007).

Levitt D. Steven and Stephen J. Dubner. ***Freakonomics: A Rogue Economist Explores the Hidden Side of Everything,*** William Morrow; Revised & Expand, Roughcut edition, 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.

Wheelan, Charles. ***Naked Economics: Undressing the Dismal Science***. W. W. Norton & Company (September 2003)

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.

Some Useful Links

Student Resources for Frank's text:
http://highered.mcgraw-hill.com/sites/0073375942/student_view0/index.html

Student Resources for KW's text:
http://bcs.worthpublishers.com/krugmanwellsmicro2/default.asp?s=&n=&i=&v=&o=&ns=0&uid=0&rau=0

Student Resources for Lipsey et al.'s text:
http://wps.aw.com/aw_lipseyrast_economics_13/76/19534/5000899.cw/index.html

Student Resources for Mankiw's text:
http://websites.swlearning.com/cgi-wadsworth/course_products_wp.pl?fid=M20b&product_isbn_issn=9780324589986&discipline_number=414

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.theairporteconomist.com
The Economist Magazine: http://www.economist.com

Study Plan:

1. What is Economics All About? **(Self Review)**

1.1) What is Economics?
1.2) The Basic Economic Problems
1.3) Production Possibility Curve (PPC)
  1.3.1) Assumptions
  1.3.2) An Illustration of Scarcity, Choice and Opportunity Costs Using the PPC
  1.3.3) Economic Growth and Changes in the PPC
  1.3.4) Exchange and Gains from Trade, Explained by the PPC
1.4) Tools used in Microeconomics
  1.4.1) Equilibrium Analysis
  1.4.2) Comparative Static Analysis
  1.4.3) Constrained Optimization
1.5) Methodology of Studying Economics
  1.5.1) Economics as a Science
  1.5.2) How Theories are Developed
  1.5.3) Positive Vs. Normative Statements

Read: Frank, ch. 1; KW, chs. 1-2; Lipsey, chs. 1-2; Mankiw, chs. 1-2

2.* Demand, Supply, and Equilibrium (3 hours)** ***Aug 9, 11

- **What Gives with the Price of Rice?**
- **IS Support a Good Thing?**

2.1) Market: Meaning and Components
2.2) Demand: Buyers' Behavior

- 2.2.1) Meaning
- 2.2.2) Law of Demand
- 2.2.3) Individual and Market Demands
- 2.2.4) The Distinction of "*Change in Quantity Demanded*" and "*Change in Demand*"
- 2.2.5) The Determinants of Demand

2.3) Supply: Sellers' Behavior

- 2.3.1) Meaning
- 2.3.2) Law of Supply
- 2.3.3) Firm and Market Supplies
- 2.3.4) The Distinction of "Change in Quantity Supplied" and "Change in Supply"
- 2.3.5) The Determinants of Supply

2.4) Market Equilibrium: When Demand and Supply Meet

- 2.4.1) Meaning and How to Determine the Equilibrium
- 2.4.2) Shocking the Equilibrium and Adjustments
  - a) When demand curve shifts
  - b) When supply curve shifts
  - c) When both demand and supply curve simultaneously shift

Read: Mankiw, ch. 4; Lipsey, ch. 3; KW, ch. 3; Frank, chs. 2 and 4

3. **Elasticity and Its Applications (3 hours)** ***Aug 16, 18***

3.1) Elasticity of Demand: Meaning, Measurement and Determinants

- 3.1.1) Price Elasticity of Demand
- 3.1.2) Income Elasticity of Demand
- 3.1.3) Cross Price Elasticity of Demand

3.2) Elasticity of Supply: Meaning, Measurement and Determinants

Read: Mankiw, ch. 5; Lipsey, ch. 4; KW, ch. 6; Frank, chs. 2 and 4

4. **Consumers, Producers, and the Efficiency of Markets (3 hours)** ***Aug 23, 25***

4.1) Consumer Surplus

- 4.1.1) Willingness to Pay (WTP)
- 4.1.2) Using the Demand Curve to Measure Consumer Surplus
- 4.1.3) How a Lower Price Raises Consumer Surplus
- 4.1.4) What Does Consumer Surplus Measure?

4.2) Producer Surplus

- 4.2.1) Cost and the Willingness to Sell
- 4.2.2) Using the Supply Curve to Measure Producer Surplus
- 4.2.3) How a Higher Price Raises Producer Surplus
- 4.2.4) What Does Producer Surplus Measure

4.3) Market Efficiency

Read: Mankiw, ch. 7; Lipsey, chs. 6 and 12; KW, ch. 4; Frank, chs. 2 and 4

5. Applications on Demand, Supply, and Government Policies (6 hours)

Aug 30; Sep 1, 6, 8

5.1) Price Controls
 5.1.1) Ceiling Price
 5.1.2) Floor Price
5.2) Effects of Taxation
 5.2.1) A Unit Tax on Producers
 5.2.2) A Unit Tax on Consumers
5.3) Effects of Subsidy Given to Producers
5.4) Applications on International Trade
 5.4.1) Import Tariffs
 5.4.2) Quotas
 5.4.3) Subsidies

Read: Mankiw, ch. 6; Frank, chs. 2 and 4; KW, chs. 5 and 7; Lipsey, ch. 5

6. The Theory of Consumer Choice (9 hours) ***Sep, 13, 15, 20 ,22; Oct 4, 6***

- **Why Do You Like What You Like?**
- **How much of What You Like Should You Buy?**
- **Does It Pay to Raise Prices?**

6.1) Utility Theory (or Cardinal Approach)
 6.1.1) The Meaning of Utility
 6.1.2) Law of Diminishing Marginal Utility
 6.1.3) Relationship between Total Utility and Marginal Utility
 6.1.4) Consumers' Equilibrium (or Rational Spending Rule) and Change in Equilibrium
6.2) Indifference Curves Theory (or Ordinal Approach)
 6.2.1) What a Consumer Wants
  a) The Meaning of Indifference Curve
  b) Properties of Indifference Curve
  c) Slope of Indifference Curve and Marginal Rate of Substitution (MRS)
 6.2.2) What the Consumer Can Afford
  a) Budget Line: Meaning, Slope, and Change in Budget Line
 6.2.3) How the Consumer Optimally Chooses
  a) Consumer Equilibrium and Change in Equilibrium
6.3) Derivation of an Individual Demand Curve Using Indifference Curves and Budget Lines
6.4) How a Consumer Responds to Change in Price: Substitution and Income Effects (Hicksian Approach)
6.5) Applications
 6.5.1) In Cash Vs. In Kind
 6.5.2) Vouchers Vs. Subsidy
 6.5.3) Work Vs. Leisure
 6.5.4) Consume Today Vs. Consume Tomorrow

Read: Frank, chs. 3-4; KW, chs. 10-11; Lipsey, ch. 6 (& appendix); Mankiw, ch. 21

7.* Production and Cost in the Short-Run (4 ½ hours)** ***Oct, 11, 13, 18

- **Can They Make It Better and Cheaper?**

7.1) Firm and the Objectives of Production
7.2) Production Functions
7.3) Distinction between Short-run and Long-run
7.4) Production Function in the Short-run
  7.4.1) Total Product (TP), Average Product (AP), Marginal Product (MP)
  7.4.2) Relationship of TP, AP, and MP
  7.4.3) Law of Diminishing Returns
  7.4.4) Stage of Production
7.5) The Meaning of Costs
  7.5.1) Economic and Accounting Costs
  7.5.2) Sunk Costs
  7.5.3) Private and Social Costs
7.6) Relationship between Costs and Production
7.7) Short-run Costs of Production: TFC, TVC, TC, AFC, AVC, ATC, MC, and their relationship

Read: Frank, chs. 9-10; KW, ch. 12; Lipsey, ch. 7; Mankiw, ch. 13

8. Production in the Long-Run (3 lectures) ***Oct 20, 25, 27***

8.1) Isoquant
8.2) Isocost
8.3) Least Cost Combination
8.4) Expansion Path
8.5) The Meaning of Returns to Scale
8.6) Long-run Costs of Production: LTC, LAC, LMC
8.7) Relationship between Expansion Path and LTC
8.8) Relationship between Long-run and Short-run Costs
8.9) Economies and Diseconomies of Scale
8.10) Economies of Scope
8.11) Learning by Doing

Read: Frank, chs. 9-10; KW, ch. 12; Lipsey, ch. 8

9. Market Structure (9 hours) ***Nov 1, 3, 8, 10, 15, 17***

- **How Many Tons of Rices Should a Rice Farmer Grow?**
- **How Do Firms Play Monopoly?**
- **Why Did Your Ticket Cost So-Much Less Than Mine?**
- **Is Competition Always the Same? If Not, Why Not?**

9.1) Meaning
9.2) Structure of Perfect and Imperfect Markets
9.3) Producer's Objectives
9.4) The Meanings of Profits and Loss
9.5) Profit Maximization
9.5.1) TR-TC Approach
9.5.2) MR-MC Approach
9.6) Perfectly Competitive Market
9.6.1) The Nature of Demand, TR, MR, AR and Their Relationships
9.6.2) Short-run Equilibrium
9.6.3) Derivation of Firm's and Market's Short-run Supply Curves
9.6.4) Long-run Equilibrium
9.7) Monopoly
9.7.1) Causes of Monopoly
9.7.2) The Nature of Demand, TR, MR, AR and Their Relationships
9.7.3) Short-run Equilibrium Vs. Long-run Equilibrium
9.7.4) Economic Effects of Monopoly
9.7.5) Regulated Monopoly
a) Fair-return Price
b) Ideal Price
9.7.6) Price Discrimination
a) First-degree Price Discrimination
b) Second-degree Price Discrimination
c) Third-degree Price Discrimination
9.8) Comparison between Perfect Competition and Monopoly

Read: Frank, chs. 11-12; KW, chs. 13-14; Lipsey, chs. 9-10, 13; Mankiw, chs. 14-15

10. Factor Markets (2 lectures) ***Nov 22, 24***

10.1) Demand for factor as a derived demand
10.2) The firm's demand for a factor
10.3) The supply of a factor
10.4) Determination of factor prices

Read: Browning, ch. 16; KW, ch. 20; Lipsey, ch. 13; Perloff, ch. 15.1-15.3

11.* Market Failure (1 ½ hours)** ***Nov 29

- **When Does the Invisible Hand Fail?**

11.1) Meaning and Characteristics
11.2) Origins of Market Failure
  11.2.1) Monopoly Power
  11.2.2) Public Goods
  11.2.3) Externalities
  11.2.4) Asymmetric Information
11.3) Consequences of Market Failure
11.4) Correction of Failure and Imperfections: Government or Private sector

Read: Frank, chs. 16-17; KW, chs. 17-18, Lipsey, Ch. 16; Mankiw, chs. 10-11, and 22
Watch: "Erin Brockovich" , "Day After Tomorrow".

"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, 1903-1983