

Principles of Microeconomics

Monday/Wednesday 9:15-10:30 in Bowman Hall 137

The popular economic writer John Kenneth Galbraith claims that:

Economics is extremely useful as a form of employment for economists.

While it is hard to disagree with Galbraith's observation, principles of economic reasoning have been found useful in many parts of modern industrial societies. For this reason, as well as others, the rhetoric of economics permeates media, politics and business. Economics is a large field, but the most common themes flow from a first course in microeconomics. This course introduces microeconomic theory, and is divided into three segments:

Demand and Supply in the Competitive Model and Consumer Theory. This segment of the course introduces: core economic ideas about benefits and costs, the "perfect" idealized vision of competitive markets, the allocative role of prices in supply and demand, and models of how consumers resolve trade-offs.

Production Theory and Resource Allocation. This segment considers how firms manage production costs in a competitive environment, workers' labor supply decisions, household savings decisions and efficiency under perfect competition.

Strategic Behavior in Imperfect Markets.

People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices.

Adam Smith, *The Wealth of Nations* (1776)

The reason that the invisible hand often seems invisible is that it is often not there.

"Managing Globalization: Q&A with Joseph Stiglitz,"

The International Herald Tribune (2006)

This segment relaxes earlier assumptions about the environment, information and incentives that economic actors respond to. Topics covered include the role of information, externalities that market activities generate, government policy and insights from game theory.

The ultimate goal of this course is the ability to apply this knowledge to better understand and critically evaluate real world circumstances and events. This course may be used to satisfy the liberal education requirements.

The prerequisite for this course is competency in advanced algebra (MATH 10007, 10022, 10023, 10024, 11009, 11010 or equivalent placement). Students not satisfying this required must withdraw. You risk deregistration if you have not met this requirement.

1. REQUIRED TEXTS AND MATERIALS

The following required book is available for purchase at the Kent State University bookstore:

Principles of Microeconomics (4th Edition) by Joseph Stiglitz and Carl Walsh (2006).

Please note we will be using SmartWork (<http://smartwork.wwnorton.com>) for homework assignments. The enrollment key is STIGLITZ834. A registration code comes free with new editions of the text. However, a code may be purchased from the SmartWork site for ~\$30 and cheap used editions of the text are available from sites such as Amazon and FindersCheapers.

2. COURSE WEB PAGE, OFFICE HOURS AND CONTACT INFORMATION

Homework will be posted on SmartWork (<http://smartwork.wwnorton.com>). Other material for the course will be posted on the course web page visible from <http://econcourse.info> which also has links to software you may find useful for this course.

2.1. Office Hours. My scheduled office hours for this course are Monday and Wednesday 10:30-12:00 and 1:45-2:45 in 458 Business Administration.

2.2. Supplemental Instruction. A Supplemental Instruction (SI) component is provided for all students who want to improve their understanding of the material taught in this course. SI sessions are led by a student who has already mastered the course material and has been trained to facilitate group sessions where students can meet to compare class notes, review and discuss important concepts, develop strategies for studying, and prepare for exams. Attendance at SI sessions is free and voluntary. Students may attend as many times as they choose. SI sessions normally begin the second week of class and continue throughout the semester. A session schedule will be announced in class. For information about the program, session schedule/updates, and possible study guides, visit: www.kent.edu/si.

Molly McCarthy (mmccar10@kent.edu) has been assigned to provide SI for students in this course. Molly is a sophomore finance major (switching to economics) and has done very well in Principles of Microeconomics previously.

2.3. Contact Outside of Class. Questions about course material should be brought up in class, office hours or supplemental instruction.

My office phone is 672-1096, but by far the best way to contact me is through the SmartWork page. When SmartWork is down, you may contact me by email (jmorro15@kent.edu).

2.4. REFER to this syllabus, SmartWork and the course webpage before emailing me! Contact questioning information already made available to you will be given a lower priority than questions on course material and may not be answered in a timely fashion.

3. COURSE REQUIREMENTS AND GRADING

The material in the course is cumulative, and it will be much easier to keep up with material as we cover it rather than trying to catch up. There are a total of 4000 points.

3.1. Homework. Homework will comprise a significant part of your grade. You are welcome to discuss homework with each other. However, the homework you turn in must be yours alone.

15 Weekly Homeworks (equally weighted—combined will be worth 32.5% of total grade):

- Scoring for each is out of 100 points.
- The first month of homework has already been posted in SmartWork, however...
- ...each homework is due within 1 week the day we have *begun* the chapter in lecture. SEE THE SCHEDULE BELOW.
- The lowest two will be dropped, therefore homework deadlines will not be extended.
- LATE HOMEWORK WILL NOT BE ACCEPTED.

3.2. **Exams.** There will be three exams. The first and second will be a conventional, in-class mid-term. The third will be during the final exam period.

3 Exams (equally weighted—combined will be worth 60% of total grade):

- Scoring for each is out of 1200 points.
- Exams are administered with bubble sheets on the scheduled dates. BRING A #2 PENCIL.
- The lowest exam will be dropped, so if you miss an exam it is dropped.
- If you miss a second exam for a UNIVERSITY DEFINED LEGITIMATE ABSENCE WITH WRITTEN DOCUMENTATION and EMAIL ME ASAP, the point value of the exam may be weighted to the final (and possibly penalized).

3.3. Exam Bonus.

“80 percent of success is just showing up.” - Woody Allen

As long as you physically make it to the test, do not forget your student id or do not need to borrow a pencil from the professor, and turn in a completed test, you receive 100 out of 100 free points for each exam you take. PLEASE NOTE THAT IF YOU ARE NOT PHYSICALLY AT THE TEST I CANNOT AWARD YOU THE EXAM BONUS. TIP: Make some friends in the course ASAP to borrow a pencil from in case you forget on exam day!

3 Exam Bonuses (combined will be worth 7.5% of total grade):

- Scoring for each is out of 100 points.

3.4. **Grading.** I expect letter grades will be assigned according to the usual ranges of >90% for A-range, 80%-90% for B-range, 70%-80% for C-range, 60%-70% for D-range, and <60% F. Exams may be curved at my discretion (this can only help your grade!) After the results of each midterm, a curve will be announced so you can know your exact grade.

Academic dishonesty on an exam will earn you an F which will not be dropped, and in general other unpleasantness. I endeavor to only assign homework and exams over material which I think is meaningful and relevant (this cuts out a fair number of stock textbook questions). In return, I expect you to honestly attempt to learn that material and use grading as a feedback mechanism to work on any weak areas of understanding.

3.5. **Tentative Schedule.** Updates will be sent out on the class email list as they occur.

TABLE 1. Tentative Assignment and Exam Schedule

Assignment	Date Available	Date Due	Assignment	Date Available	Date Due
Chapter 1 Homework	30 Aug	6 Sept	Chapter 9 Homework	11 Oct	7 Nov
Chapter 2 Homework	30 Aug	15 Sept	Chapter 10 Homework	11 Oct	14 Nov
Chapter 3 Homework	30 Aug	22 Sept	<i>Midterm Exam 2</i>	<i>10 Nov</i>	
Chapter 4 Homework	30 Aug	29 Sept	Chapter 11 Homework	15 Nov	21 Nov
Chapter 5 Homework	30 Aug	6 Oct	Chapter 12 Homework	15 Nov	28 Nov
<i>Midterm Exam 1</i>	<i>6 Oct</i>		Chapter 13 Homework	15 Nov	5 Dec
Chapter 6 Homework	11 Oct	17 Oct	Chapter 14 Homework	15 Nov	12 Dec
Chapter 7 Homework	11 Oct	24 Oct	Chapter 15 Homework†	15 Nov	14 Dec
Chapter 8 Homework	11 Oct	31 Oct	<i>Final Exam</i>	<i>15 Dec, 10:15-12:30</i>	

† Time Permitting

4. CLASS AND UNIVERSITY POLICIES

The registrar's page for deadlines is <http://www.registrars.kent.edu/home/FALL/Calendar.htm>

4.1. Course Registration. Students have responsibility to ensure they are properly enrolled in classes. You are advised to review your official class schedule (using Student Tools on FlashLine) during the first two weeks of the semester to ensure you are properly enrolled in this class and section. Should you find an error in your class schedule, you have until Sunday, September 5, 2010 to correct the error. If registration errors are not corrected by this date and you continue to attend and participate in classes for which you are not officially enrolled, you are advised now that you will not receive a grade at the conclusion of the semester for any class in which you are not properly registered.

4.2. Withdrawal. Withdrawal before the deadline results in a W on the official transcript: after the deadline a grade must be calculated and reported. For Fall 2010, the course withdrawal deadline is Sunday, November 7, 2010. Please consult with an academic advisor in the Undergraduate Programs Office (Room 107, BSA - 330-672-2872) if you are having academic difficulty.

4.3. Academic honesty. Cheating means to misrepresent the source, nature, or other conditions of your academic work (e.g., tests, papers, projects, assignments) so as to get undeserved credit. In addition, it is considered to be cheating when one cooperates with someone else in any such misrepresentation. This is a serious academic offense. It is the University's policy that cheating or plagiarism results in receiving a failing grade for the work or course. Repeat offenses result in dismissal from the University. Students with Disabilities: University policy 3342-3-18 requires that students with disabilities be provided reasonable accommodations to ensure their equal access to course content. If you have a documented disability and require accommodations, please contact the instructor at the beginning of the semester to make arrangements for necessary classroom adjustments. Please note, you must first verify your eligibility for these through the office of Student Accessibility Services (contact 330-672-3391 or visit www.kent.edu/sas for more information).

4.4. Attendance Policy. I do not take attendance; however, you are responsible for any material covered during lectures, including class administrative information. It is generally to students' benefit to attend class regularly having looked over the course website and the outlined topics. Please make some friends in the class ASAP so that you can be quickly updated with any changes if you miss class.

4.5. Disability Accommodations. University policy 3342-3-01.3 requires that students with disabilities be provided reasonable accommodations to ensure their equal access to course content. If you have a documented disability and require accommodations, please contact the instructor at the beginning of the semester to make arrangements for necessary classroom adjustments. Please note, you must first verify your eligibility for these through Student Accessibility Services (contact 330-672-3391 or visit www.registrars.kent.edu/disability/ for more information on registration procedures).

5. SYLLABUS AND APPROXIMATE COURSE SCHEDULE

I. CHAPTER 1: MODERN ECONOMICS (30 August-1 September)

A. WHAT IS ECONOMICS? WHAT ARE MARKETS?

B. CORE IDEAS OF ECONOMICS

C. THREE MAJOR MARKETS: PRODUCTS, LABOR AND CAPITAL

D. MICROECONOMICS VS MACROECONOMICS

E. WHY ECONOMISTS OFTEN DISAGREE

II. CHAPTER 2: THINKING LIKE AN ECONOMIST (8-13 September)

A. THE BASIC COMPETITIVE MODEL

- B. PRICES, PROPERTY RIGHTS, PROFITS, INCENTIVES, AND INFORMATION
- C. ALTERNATIVES TO THE MARKET SYSTEM FOR ALLOCATING RESOURCES
- D. RATIONAL CONSUMERS, FIRMS, COMPETITION AND EFFICIENCY
- E. CATEGORIES OF COST USED IN ECONOMICS

III. CHAPTER 3: DEMAND, SUPPLY AND PRICE (15-20 September)

- A. HOW PRICES TRANSMIT INFORMATION AND INCENTIVES
- B. INDIVIDUAL DEMAND/SUPPLY CURVES TO MARKET DEMAND/SUPPLY CURVES
- C. CURVE SHIFTS VS MOVEMENTS ALONG A CURVE
- D. USING DEMAND AND SUPPLY CURVES TO ANALYZE DIFFERENT ECONOMIC PROBLEMS
- E. PRICE, VALUE, AND COST

IV. CHAPTER 4: USING DEMAND AND SUPPLY (22-27 September)

- A. RELATIONSHIPS BETWEEN ELASTICITY, QUANTITY, PRICE, AND REVENUE
- B. DETERMINANTS OF DEMAND AND SUPPLY ELASTICITY
- C. SHORT-RUN VS LONG-RUN PRICE ELASTICITY
- D. ELASTICITY AND THE BURDEN OF TAXATION
- E. SHORTAGES AND SURPLUSES: SHORT RUN AND LONG RUN
- F. GOVERNMENT INTERVENTION IN SUPPLY AND DEMAND

V. CHAPTER 5: THE CONSUMPTION DECISION (29 September-4 October)

- A. THE CONSUMER'S PROBLEM: UTILITY MEETS THE BUDGET CONSTRAINT
 - B. INCOME ELASTICITY OF DEMAND
 - C. DISCUSS HOW CHANGES IN PRICES AND INCOME CHANGE THE POSITION AND SLOPE OF THE BUDGET CONSTRAINT
 - D. RELATIVE PRICES: OPPORTUNITY COST AND EFFICIENT CHOICE
 - E. INCOME AND SUBSTITUTION EFFECTS OF PRICE CHANGES
 - F. CONSUMER SURPLUS AND WILLINGNESS TO PAY
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MIDTERM 1 (October 6)

- VI. CHAPTER 6: THE FIRM'S COSTS (11-13 October)**
 - A. VARIABLE INPUTS AND MARGINAL RETURNS
 - B. PRODUCTIVITY AND COSTS
 - C. COST CURVES: MARGINAL VS AVERAGE, SHORT-RUN VS LONG-RUN
 - D. ECONOMIES OF SCALE AND SCOPE
- VII. CHAPTER 7: THE COMPETITIVE FIRM (18-20 October)**
 - A. MARGINAL REVENUE, MARGINAL COSTS AND PROFITS
 - B. CONDITIONS OF COMPETITIVE SUPPLY
 - C. THE MARGINAL COST CURVE AND THE SUPPLY CURVE
 - D. ENTRY AND EXIT OF FIRMS
 - E. SUPPLY IN THE SHORT RUN VS LONG RUN
 - F. ACCOUNTING PROFITS VS ECONOMIC PROFITS
- VIII. CHAPTER 8: LABOR MARKETS (25-27 October)**
 - A. WORKERS' LABOR SUPPLY AND FIRMS' LABOR DEMAND
 - B. INCOME AND SUBSTITUTION EFFECTS IN LABOR SUPPLY
 - C. LEISURE, CONSUMPTION AND FEMALE LABOR FORCE PARTICIPATION
- IX. CHAPTER 9: CAPITAL MARKETS (1-3 November)**
 - A. THE TIME VALUE OF MONEY
 - B. SAVINGS DECISIONS
 - C. HUMAN CAPITAL, EDUCATION AND THE TRADE-OFFS INVOLVED
- X. CHAPTER 10: THE EFFICIENCY OF COMPETITIVE MARKETS (8 November)**
 - A. EFFICIENCY OF COMPETITIVE MARKETS
 - B. PARETO EFFICIENCY AND GOVERNMENT INTERVENTION

C. HOW GOODS, CAPITAL, AND LABOR MARKETS INTERACT

MIDTERM 2 (November 10)

- XI. CHAPTER 11: INTRODUCTION TO IMPERFECT MARKETS (15-17 November)**
- A. RELAXING THE COMPETITIVE MODEL TO STUDY REAL-WORLD ECONOMIES
 - B. THE MARKET STRUCTURE OF IMPERFECT COMPETITION
 - C. IMPERFECT INFORMATION IN REAL ECONOMIES
 - D. EXTERNALITIES AND MARKET INEFFICIENCIES
 - E. PUBLIC GOODS AND GOVERNMENT
- XII. CHAPTER 12: MONOPOLY, MONOPOLISTIC COMPETITION AND OLIGOPOLY (22-24 November)**
- A. MONOPOLIES VS COMPETITIVE INDUSTRIES
 - B. DRAWBACKS OF MONOPOLIES
 - C. BARRIERS TO ENTRY
 - D. HOW GOVERNMENTS ADDRESS PROBLEMS OF MONOPOLY
 - E. PROPERTIES OF IMPERFECTLY COMPETITIVE INDUSTRIES
 - F. HOW OLIGOPOLISTIC INDUSTRIES OPERATE
- XIII. CHAPTER 13: GOVERNMENT POLICIES TOWARD COMPETITION (29 November-1 December)**
- A. DRAWBACKS OF LIMITED COMPETITION
 - B. GOVERNMENT POLICIES TOWARD NATURAL MONOPOLIES
 - C. GOVERNMENT ANTITRUST POLICIES
- XIV. CHAPTER 14: STRATEGIC BEHAVIOR (6-8 December)**
- A. GAME THEORY AND STRATEGIC BEHAVIOR
 - B. THE PRISONER'S DILEMMA AND IMPLICATIONS
 - C. DOMINANT STRATEGIES AND NASH EQUILIBRUM

D. PROBLEMS OF COOPERATION AND HOW REPUTATION (ETC.) MAY HELP

E. SEQUENTIAL GAMES, THREATS AND TIME INCONSISTENCY

XV. CHAPTER 15: IMPERFECT INFORMATION IN THE PRODUCT MARKET (Time Permitting)

A. IMPERFECT INFORMATION IN REAL-WORLD ECONOMIES

B. THE MARKET FOR LEMONS

C. PRICE MAY CARRY INFORMATION ABOUT QUALITY, NOT JUST SCARCITY

D. IMPERFECT INFORMATION: MARKET, CONTRACT, AND REPUTATION SOLUTIONS

E. ECONOMICS OF SEARCH

F. TYPES AND EFFECT OF ADVERTISING

FINAL (Wed Dec 15, 10:15-12:30, Room TBA)

6. MAPS

FIGURE 6.1. Building Locations

Kent State University Map

