Ec303 Intermediate Microeconomics

This course will be structured around a series of questions rather than a laundry list of terms, concepts and theories to be memorized. Students will be required research and consider alternative answers to questions. In the process of discussing (and writing about) these questions, it will be necessary to address both normative and positive issues. It will also be necessary to research and learn both the technical, mechanical theories of neoclassical economics and to understand these theories in their philosophical and historical contexts. A critical evaluation of the tools that are used to analyze questions is expected. You will be required to explain what is useful or inappropriate about the tool. If the tool is not appropriate, you will need offer alternative approaches to answering the question. It will be necessary to be able to effectively communicate your ideas and opinions.

Attached to these questions is an outline of the basic neoclassical economic concepts that will aid in answering or addressing these questions. Every microeconomic text has a table of contents and index that will be useful in locating the microeconomic tools that will help in the analysis.

There will be four writing assignments that students will be expected to share with the class as well as to discuss alternative answers to the questions. There are 8 quizzes, a midterm exam and a final. See the syllabus for details.

The questions are all interrelated and provide the basis for additional questions. Many of the questions can be answered from the basic material that was presented in principles of economics and other classes. In other cases, it will be necessary to learn and be able to describe the technical concepts that provide the structure for neoclassical economic analysis.

Module I

I.1 What are economic "activities" (actions, behaviors)?
- I.1.a What individual objectives drive or influence economic behavior?
  - i. What criteria do individuals use to choose among alternative behaviors (actions, choices)?
  - ii. How can the effectiveness of the individual's behavior be evaluated?
  - iii. What is meant by "rational" behavior?
  - iv. What is meant by "strategic" behavior?
- I.1.b What are the social objectives of economic behavior?
  - v. What is meant by "social objectives?"
  - vi. Can social objectives exist?

I.2 What is an "economic system?"
- I.2.a What is (are) the basic function(s) if an economic system?
- I.2.b Why are economic systems necessary? What "problems do they purport to "solve?"
- I.2.c What approaches may be used to "solve" (or deal with) these problems?
- I.2.d What are the basic components or elements that are used to characterize an economic system?
- I.2.e What criteria can (should) be used to judge or gage the performance of an economic system?

Module II

II What is the nature and scope of "economics?"
- II.1 What is the predominant "methodology" used in economics?
- II.2 What is the predominant "ideology" or perspective that is dominant in (neoclassical) economics?

II.3 What are the basic approaches to “knowing” the fundamental relationships and behavioral patterns in an economic system?
II.4 What types of information (and/or knowledge) is (are)relevant to economic behavior and analysis?
II.4 What are the basic approaches to the analysis of economics questions and behavior?
II.5 What is the predominant economic institution in the 21st century?

Module III

III What is a “market?” What is a market system?
III.1 What is (are) the function(s) of a market?
(From an individual perspective?
From a social perspective?)
III.2 What are the basic elements or components of a market?
III.3 What foundations are required for a market to function effectively? (Legal, social, moral, technological, information, etc)
III.4 What criteria may be used to evaluate the effectiveness or how well a market performs it functions?
III.5 What criteria can be used to evaluate the performance of individual economic actors (agents)?
III.6 What criteria can be used to structure a taxonomy of markets? Why use these criteria?

Module IV

IV What is “power?”
IV.1. What is meant by economic power? How might it be measured?
IV.2 What are the sources of economic power?
IV.3 Should economic power be restricted? Why or why not? How might power be restricted?

Module V

V What is meant by “property rights?”
V.1 What are the possible the foundations or justifications for individual (private) property rights?
V.2 What is the relationship of “property rights” to society? How are property rights defined and enforced?
V.3 Why are “private property rights” deemed important?
V.4 What are the fundamental characteristics of property rights for an economic system?
V.5 What problems emerge if property rights are “attenuated?”
V.6 What approaches can be taken to resolve problems that result from nonattenuated property rights?
V.7 To what extent should property rights be altered to achieve economic objectives? (Kelo v New London as example)
V.8 How has technological change altered the concept of property rights?
V.9 What are “intellectual property rights?”
V.10 What are the incentives that are associated with alternative assignments of intellectual property rights? (patents, copyrights, trademarks, industrial secrets, etc)
V.11 What are the “legal foundations of capitalism?”
V.12 What is the role of law in an economic system?
V.13 What is the role of economics in a legal system?

Module VI

VI What is the difference between institutions and organizations?
- VI.1 What is an institution?
- VI.2 What are the functions of institutions?
- VI.3 What are the forces that shape institutions?
- VI.4 What is the process by which institutions change over time?
- VI.5 What is an organization?
- VI.6 Why do individuals use hierarchical organizations to organize economic activities rather than voluntary exchange?
- VI.7 What are “transaction costs?”
- VI.8 What is (are) the source(s) of transaction costs?
- VI.9 What is the relationship of information to markets?
- VI.10 What are the origins of the “business firm?”
- VI.11 What are the historical origins of the modern corporation?
- VI.12 What are the legal foundations of the modern corporation?
- VI.13 What is the relationship of the modern corporation to society? To individuals? (owners, workers, managers, customers, government, etc)
- VI.14 Does the existence of corporations alter the process by which resource and goods are allocated?
- VI.15 What problems does the internal structure of corporations pose for allocation choices?
- VI.16 How is the distribution of income altered by the existence of corporations?

Module VII

VII What is the distribution of income? (functional / personal)
- VII.1 How can the distribution of income be measured?
- VII.2 What factors influence the distribution of income?
- VII.3 Is there an ethical component in the analysis of income distribution? Is the “marginal productivity theory of income” an ethical or economic theory?
- VII.3 Is the distribution of income related to economic performance?

AN OUTLINE OF NEOCLASSICAL ECONOMICS

I. MECHANICAL ANALYSIS OF MARKET TRANSACTIONS

(Salvatore, Chapter 2, 3)

A. Demand Functions
1. Nature of demand (Two perspectives)
   a) $Q_d = f(P_X, P_Y$, Income, Preferences, Population, . . .)
   b) Price as a reservation price [$P = f(Q)$]
2. Change in demand and change in quantity demanded
3. Individual and Market Demand functions (Browning, Chapter 4)
   a) Indifference curves
   b) Income and Substitution effects
4. Demand for a product

B. Supply Functions
1. Nature of Supply function
   a) $Q = f(P_X$, price of inputs, technology, #sellers, . . .)
   b) Price as a reservation price [$P = f(Q)$]
2. Changes in supply and change in quantity supplied

C. Market and Equilibrium

D. Elasticity as a tool
1. “own” Price Elasticity of Demand
2. Cross Elasticity
3. Income Elasticity

4. Other Uses of Elasticity

II. MARKETS AND SOCIAL WELFARE

A. Objectives of An economic system
    1. Individual welfare
    2. The commonweal
    3. Ethics and the social process
        a) Consequentialist ethics and Utilitarianism
        b) Deontological ethics
B. Pareto optimality and market exchange
    1. Voluntary exchange and utility maximization
    2. Non-attenuated Property rights
    3. Pareto Potential and Benefit/cost analysis
        a) Production possibilities
        b) Prices and values
        c) Economics as a valuation process
C. Constraints
    1. Production constraints and alternatives
    2. Social institutions

III. PRODUCTION

A. Production Functions
    1. Long run production functions
    2. Short run production functions
    3. Technology
B. Production Functions and the Transformation Function
    1. Isoquants
    2. Pareto Efficiency
    3. Returns to Scale
    4. Marginal Rate of Technical Substitution (MRTS)
    5. Marginal Rate of Transformation (MRT)
    6. Empirical evidence on production functions.
    7. Long run
C. Short Run Production
    1. TP, AP, MP
    2. Graphical Presentation of Short run Production
    3. Diminishing Marginal Productivity

IV. PRODUCTION AND COST

A. Nature of Cost
B. Relation of Production and Cost Functions
C. Short Run Cost Functions
    1. Total, Total variable, and Fixed Costs
    2. Average Costs (ATC or AC, AVC, AFC,)
    3. Marginal Cost (MC) *Know the relationship of the MRT and MC.*
    4. Graphical presentation of Cost Functions (and relation to production)
D. Long run Cost functions
    1. Isocost functions
    2. Isoquants
    3. Least Cost input combinations
    4. Expansion Path and ridge lines
    5. Envelope Curve
    6. Economies of size or scope

V. REVENUE OF THE FIRM

A. Demand for Firm's Product
B. Demand and Revenue
    1. TR, AR and MR
    2. Elasticity and Revenue

VI. OBJECTIVES AND FIRM BEHAVIOR

A. Profit maximization
    1. Short Run – MR = MC
    2. Shutdown conditions
    3. Pure Competition and Profit max in the short run
    4. Pure Competition and profit max in the long run
    5. Efficiency and profits in pure competition
B. The supply function In pure competition
    1. Returns to scale and the supply function
    2. Shifts in supply
C. Pure competition and social welfare
    1. Consumer surplus
    2. Producer surplus
    3. Dead Weight loss
D. Sales Maximization, market share and other objectives
E. Monopoly
    1. Demand, AR and MR
    2. MC and profit maximization
    3. Measurement
    4. source of market power and natural monopoly
    5. Monopoly and social welfare
    6. Monopoly pricing strategies
        a) Price discrimination
        b) Peak load pricing
F. oligopoly and imperfect Competition
    1. Monopolistic competition
    2. Efficiency and imperfect competition
    3. Oligopoly and interdependence
        a) Cournot
        b) Other models
        c) Game theory

VII. FACTOR MARKETS

A. Demand for inputs and VMP or MRP
B. Supply of inputs
C. Wages and Labour
D. Interest and Kapital
E. Rent and land
F. Normal Profits
G. Income distribution
    Lorenz Curve

VIII. GENERAL EQUILIBRIUM – SOCIAL WELFARE AND THE MARKET

A. Partial and General Equilibrium
B. "efficiency" (again)
    1. Technical Efficiency
    2. Economic or Allocative Efficiency
    3. Pareto Efficiency and Pareto Potential
C. Conditions for General Equilibrium
    1. Production

   2. Consumption
   3. Markets and Prices

D. Property Rights failures
   1. Externalities
   2. Collective or Public Goods
   3. Common Property Resources

IX. GAME THEORY AND STRATEGY

A. Prisoners Dilemma
B. Classification of Games
C. Information
D. Zero sum and variable sum games
E. Sequential moves
F. Simultaneous moves