

# Basic Microeconomics

## Ec202 Course Outline

Reynolds – Principles of Microeconomics

### I Introduction

- A. The nature of Economics
- B. scope and limits of microeconomics
- C. Basic Concepts
  - 1. scarcity
  - 2. choice
  - 3. comparative advantage
  - 4. coordination of individual choices
  - 5. ethics and efficiency
  - 6. opportunity cost
  - 7. economic way of thinking
    - a. Rationality
    - b. Benefit/cost
    - c. Marginal analysis
  - 8. Ways of knowing (epistemology)
- D. Appendix I Schools of Thought

### II The Economic Organization of Society

- A. Production and Distribution
  - 1. Production
    - a. Resources
    - b. Technology
    - c. Transformation function or Production Possibilities function (PPF)
    - d. Comparative advantage
    - e. Efficiency and transformation function
    - f. Benefit/cost analysis and PPF
    - g. Economic Growth
  - 2. Distribution and Circular Flow
- B. Economic Systems
  - a. Tradition
  - b. Command
  - c. Market Based
- C. Role of Government
  - a. Property rights
  - b. Domestic justice
  - c. National defense
  - d. Provision of public goods
  - e. Promote competition
  - f. Safety net

### III Demand and Supply in a Market System

- A. Demand Function
  - a. Individual
  - b. Market
  - c. Change in quantity demanded
  - d. Change in demand
  - e. Inferior, normal and superior goods
  - f. Complements and substitutes
  - g. Expectations
- B. Supply Function
  - a. Graph and definition of market supply (supply of firm comes later)

- b. Change in supply
- c. Change in quantity supplied
- C. Equilibrium
  - a. Partial and general
  - b. Static and dynamic
- D. Market Adjustment to change

## IV Demand and Consumer Behavior

- A. Consumer choice and Utility
  - a. Marginal and total Utility
  - b. Diminishing MU
  - c. Budget constraints
  - d. Equimarginal principle
  - e. Individual Demand from utility
    - i. Income effect
    - ii. Substitution effect
  - f. Market demand
  - g. Consumer surplus
  - h. Producer surplus
  - i. Elasticity
    - i. Price
      - 1. Elasticity and TR
      - 2. determinants
    - ii. Income
      - 1. inferior
      - 2. normal
      - 3. superior
    - iii. Cross
      - 1. Complements
      - 2. Substitutes
  - j. Elasticity and Buyer Response to Changes

## V Production and Cost

- A. Production
  - a. Production Unit
  - b. Production function
  - c. Time and production
  - d. Production in the short-run
  - e. Total, average and Marginal Product
- B. Cost
  - a. Opportunity cost
  - b. Implicit and explicit cost
  - c. Costs and production in the Short-run
  - d. Graphical representation of costs
  - e. Production and cost tables
  - f. Cost and long-run production
  - g. "Returns to scale"

## VI Optimization and Markets

- A. Objective, constraints and alternatives
- B. Evaluation Criteria
  - a. Efficiency
  - b. Technical efficiency
  - c. Economic or allocative efficiency
  - d. Pareto efficiency
  - e. Equity
- C. Marginal Analysis
- D. Market Exchange and Efficiency
- E. Prices as Information

## VII Pure Competition

- A. Market Structure

- a. Pure competition
  - b. Monopoly
  - c. Monopolistic Competition or Imperfect Competition
  - d. Oligopoly
  - e. Monopsony
  - f. Oligopsony
- B. Firm in Pure Competition
  - C. Profit Maximization in the Short-run
  - D. Loss minimization and shut down in the short-run
  - E. Profits and the firm in long-run Pure Competition
  - F. The "Ideal"

## **VIII Firms With "Market Power"**

- A. Monopoly
  - a. Sources of Monopoly Power
  - b. Profit maximization in a monopoly
  - c. Long run and monopoly
- B. Monopolistic or Imperfect Competition
- C. Oligopoly
- D. Performance

## **IX Markets of Inputs and Distribution of Income**

- A. Demand for Inputs
- B. Supply of Inputs
- C. Markets for Inputs
- D. Income Distribution

## **X Property Rights and Markets**

- A. Private Property Rights
  - a. Transferable
  - b. Enforceable
  - c. Exclusive
- B. Market Failure and Property Rights
  - a. Externalities
  - b. Common property Resources
  - c. Collective goods