

# **Principles of Microeconomics**

**Economics 111, Fall 2016**

**Scott Wallace**

**Section 1: Monday & Wednesday, 9:35 to 10:50 AM, CPS 310**

**Section 4: Tuesday & Thursday, 2:00 to 3:15 PM, CPS 322**

**Office: CPS 416**

**Office Hours: MW 2:30-3:20, TTh 1:00 to 1:50 PM**

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## **About the Course.**

The economic problem of scarcity forces people to make choices. This course analyzes the choices economic actors make within individual markets in the economy and how those choices affect market outcomes. More specifically, we will examine the interactions of firms and households to determine their effects on variables like price, output, and profit. In doing so, the course emphasizes the economic way of thinking. Economists have a unique view of the world; it is important for students to understand the intuition behind economic analysis. Economists also use a variety of theoretical tools in studying behavior. Graphs, in particular, will be employed often in this class. To be successful, students will need to be able to apply economic intuition and theoretical tools in critically analyzing problems.

## **SBE Mission and Learning Objectives.**

### **School of Business & Economics Mission Statement**

The UWSP School of Business & Economics educates and inspires students and prepares graduates for success in positions of leadership and responsibility. We serve the students, businesses, economy and people of the greater Central Wisconsin region. Our students achieve an understanding of regional opportunities that exist within the global economy.

### **Program Learning Outcomes:**

- **AACSB - SBE Common Core:**
  - Students will be able to apply core concepts, models and methods from business, accounting and economics in identifying and solving problems.
- **Social Science Economics:**
  - Students will be able to define economic terminology appropriately.

- Students will be able to perform common economic measurements and identify their limitations.
- Students will be able to use economic models to identify equilibrium outcomes and perform comparative statics.
- **General Education Program:**
  - Define the major concepts and methods used by social scientists to investigate, to analyze, or to predict human or group behavior.
  - Explain the major principles, models, and issues under investigation by the social sciences.
  - Examine how the individual or groups of individuals are influenced by social, cultural, or political institutions both in their own culture and in other cultures.

**Course Outcomes:** After completing the course students should be able to:

- Define microeconomic terms and concepts.
- Perform and use microeconomic measurements to analyze rational decision making.
- Solve utility and profit maximization problems using basic mathematical and graphical tools.
- Describe how equilibrium outcomes are influenced by changing market, social, and government forces.

Achievement of the above learning objectives will be assessed at the end of the course using a set of questions on the final exam. The School of Business & Economics will aggregate and analyze the data as part of a continuous effort to improve our programs.

## Course Requirements.

Your grade will consist of the following components:

Quizzes:	15%	Most Weeks
First Exam:	25%	Sec. 1: Wednesday, October 12 Sec. 4: Thursday, October 13
Second Exam:	25%	Sec. 1: Wednesday, November 16 Sec. 4: Thursday, November 17
Final Exam:	35%	Sec. 1: Friday, Dec. 16 (12:30-2:30) Sec. 4: Friday, Dec. 16 (10:15-12:15)

*Exams:* Exams will consist of multiple choice questions. Exams will stress comprehension (not memorization) of the course material. I do not give make-up exams. Only under extraordinary circumstances will I excuse a student from taking an exam. You will need my prior consent and proof of the relevant circumstances to be excused. If you do miss an exam (legitimately), I will reallocate the weight of the missed exam onto the final exam. The final exam will be cumulative; it will include questions that directly assess the learning objectives listed above.

*Quizzes:* Quizzes will be due at the beginning of the class period on most Wednesdays. Like the exams, quizzes will consist of multiple choice questions. In addition to the grade component, these quizzes provide valuable practice for the exams. The form and content of the quiz questions will be similar to the questions you will receive on the exams. No make-up quizzes will be given. In lieu of make-ups, I will drop your two lowest quiz scores in calculating your final quiz average.

Your final grade will be based upon the calculation of your final average based upon the weights assigned to quizzes and exams.

A	92.5+
A-	90.0-92.4
B+	87.5-89.9
B	82.5-87.4
B-	80.0-82.4
C+	77.5-79.9
C	70.0-77.4
C-	65.0-69.9
D+	60.0-64.9
D	55.0-59.9
F	Below 55

## **Course Materials.**

The following text should be available in the campus bookstore.

Krugman & Wells' *Microeconomics*, Third Edition, USA: Worth Publishers, 2012.

You can get the *Microeconomics* text through text rental. All course readings will come from the textbook.

## **Course Outline and Reading Assignments.**

### ***Part One: Introduction to Microeconomics***

#### **I. Economic Principles**

- A. Introduction: Introduction, pp. 1 – 4.
  - 1. The Market Economy, the Invisible Hand, and Microeconomics.
  - 2. Market Failure: My Benefit, Your Cost
  - 3. Good Times, Bad Times, and Macroeconomics

B. Core Principles: Chapter 1, pp. 5 – 16.

1. Scarcity, Choice, and Opportunity Cost
2. “How Much” Decisions are Made at the Margin
3. People Respond to Incentives
4. Specialization and the Gains from Trade
5. Markets and Equilibrium
6. Markets and Efficient Use of Resources

## **II. The Market System: Supply and Demand**

A. Background: Chapter 2, pp. 37-38 and Chapter 3, p. 66.

1. Product and Factor Markets
2. Circular Flow of Market Activity
3. Supply and Demand: A Model of a Competitive Market

B. The Demand Side of the Market: Chapter 3, pp. 66 - 76.

1. The Demand Schedule and the Demand Curve
2. Shifts of the Demand Curve vs. Movements Along the Demand Curve
3. Factors that Shift the Demand Curve

C. The Supply Side of the Market: Chapter 3, pp. 76 - 83

1. The Supply Schedule and the Supply Curve
2. Shifts of the Supply Curve vs. Movements Along the Supply Curve
3. Factors that Shift the Supply Curve

D. Supply, Demand, and Equilibrium: Chapter 3, pp. 83 - 88

1. Finding Equilibrium Price and Quantity
2. Eliminating Surpluses and Shortages

E. Changes in Supply and Demand: Chapter 3, pp. 88 – 90.

1. Effects of Changes in Demand on Equilibrium
2. Effects of Changes in Supply on Equilibrium

## **III. Consumer and Producer Surplus.**

A. Consumer Surplus and the Demand Curve: Chapter 4, pp. 102 – 108.

1. Willingness to Pay and Consumer Surplus
2. Willingness to Pay and the Demand Curve
3. Changing Prices and Consumer Surplus

- B. Producer Surplus and the Supply Curve: Chapter 4, pp. 109 – 113.
  - 1. Cost and Producer Surplus
  - 2. Cost and the Supply Curve
  - 3. Changing Prices and Producer Surplus
  
- C. Consumer Surplus, Producer Surplus, and the Gains from Trade: Chapter 4, pp. 114 – 119.
  - 1. Total Surplus and the Gains from Trade
  - 2. The Efficiency of Markets
  - 3. Equity and Efficiency
  
- D. Government Price Controls and Economic Inefficiency, Chapter 5, pp. 127 – 136.
  - 1. Why Government Controls Prices
  - 2. Price Ceilings, Economic Inefficiency, and Black Markets

#### **IV. Elasticity**

- A. A Measure of Responsiveness: Chapter 6, p. 155.
  
- B. The Price Elasticity of Demand: Chapter 6, pp. 156 – 161.
  - 1. Definition
  - 2. Categories of the Price Elasticity of Demand
  - 3. Calculating the Price Elasticity of Demand: Midpoint Method
  - 4. Polar Cases: Perfectly Elastic and Perfectly Inelastic Demand
  
- C. Elasticity and Total Revenue, Chapter 6, pp. 162 – 164.
  - 1. The Price Effect and the Quantity Effect of a Price Change
  - 2. Price Changes, Elasticity, and Effect on Total Revenue
  - 3. Changes in Elasticity along a Linear Demand Curve
  
- D. The Factors that Determine Price Elasticity of Demand: Chapter 6, pp. 165 – 167.
  - 1. The Availability of Close Substitutes
  - 2. Luxuries vs. Necessities
  - 3. Share of Income Spent on the Good
  - 4. Time Elapsed Since the Price Change

## ***Part Two: Economics of Decision-Making - Consumers and Firms***

### **I. The Rational Consumer**

A. Utility: Chapter 10, pp. 269 – 273.

1. Utility and Consumption
2. The Principle of Diminishing Marginal Utility

B. Budgets and Optimal Consumption: Chapter 10, pp. 273 – 278.

1. Budget Constraints and Budget Lines
2. Optimal Consumption Choice

C. Spending the Marginal Dollar: Chapter 10, pp. 278 – 282.

1. Marginal Utility per Dollar
2. Utility Maximization and Equal Marginal Utility Per Dollar Principle

D. From Utility to the Demand Curve: Chapter 10, pp. 282 – 285.

1. The Law of Demand and the Substitution Effect of a Price Change
2. The Law of Demand and the Income Effect of a Price Change

### **II. Firm Decision-making: Profits, Production, and Costs**

A. Costs, Benefits, and Profits: Chapter 9, pp. 244 – 248..

1. Explicit vs. Implicit Costs
2. Accounting Profit vs. Economic Profit
3. Making “Either- Or” Decisions

B. “How Much” Decisions and Marginal Analysis: Chapter 9, pp. 248 – 256.

1. Marginal Cost & Marginal Benefit
2. Marginal Analysis

C. Sunk Costs: Chapter 9, pp. 256-257.

D. Production in the Short Run: Chapter 10, pp. 318-321

1. Fixed and Variable Inputs
2. Total Product and Marginal Product
3. Increasing and Diminishing Marginal Returns to an Input

E. Costs in the Short Run: Chapter 10, pp. 322-332

1. Variable Cost, Fixed Cost, and Total Cost
2. Marginal Cost
3. Average Variable Cost, Average Total Cost, and Average Fixed Cost

F. Costs in the Long Run and Long-Run Average Costs: Chapter 10, pp. 333-339.

1. Increasing Returns to Scale
2. Constant Returns to Scale
3. Decreasing Returns to Scale

## ***Part Three: Market Structure***

### **I. Firms in Perfectly Competitive Markets**

A. Perfect Competition: Chapter 12, pp. 346-349

1. Definition
2. Conditions of Perfectly Competitive Markets

B. Production and Profits: Chapter 12, pp. 349 - 360

1. Marginal Analysis and Profit Maximization
2. Economic Profit in the Short-Run
3. Minimizing Short-Run Losses
4. Summary of Short-Run Production Decisions
5. Changing Fixed Costs

C. The Industry Supply Curve: Chapter 12, pp. 360 – 367.

1. The Short-Run Industry Supply Curve
2. The Long-Run Industry Supply Curve
3. The Cost of Production and Efficiency in Long-Run Equilibrium

## **II. Monopoly**

A. Meaning of Monopoly: Chapter 13, pp. 375 – 381.

1. What Monopolists Do
2. Why Monopolies Exist

B. How a Monopolist Maximizes Profit: Chapter 13, pp. 381 - 388

1. The Monopolist's Demand and Marginal Revenue Curve
2. The Monopolist's Profit-Maximizing Output and Price
3. Monopoly vs. Perfect Competition
4. Monopoly: The General Picture

C. Welfare Effects of Monopoly: Chapter 13, pp. 388 – 390.

1. Consumer and Producer Surplus Under Perfect Competition
2. Consumer Surplus, Producer Surplus, and Deadweight Loss Under Monopoly