Outline

This course primarily focuses on the function of markets and how they work to allocate resources and distribute income. The main topics are the decision making of consumers and producers, the structure of output and input markets, and the relationship among the different markets. The models developed in the course will be used to examine the efficiency and equity properties of a market equilibrium.

Prerequisites and Requirements

Both Economics 10 and Mathematics 22 are required for this course, especially, you are required to do calculus as it is the most common and important tool in microeconomics.

There will be one 75 minutes midterm examination (30%) and the time will be scheduled in class. The final exam (50%) will be cumulative and will cover the entire course. There will be no make-up exams for the midterm, the weight of the missed midterm is placed on the final examination. You may still fail the course for a disastrous final examination even if you have a passing average grade.

Homework assignments will be a very important part of the learning process. I will discuss the solutions in class to help you to grasp the materials. Since it is very difficult for most students to understand the material well by only reading the text and reviewing class notes, the assignments provide a good hands-on exercise to apply your knowledge in class to real problems. I will assign homework after each class. To make sure that you work hard on these assignments, I will randomly choose some of them to be graded quiz and each will be graded out of 10. At the end of the semester, your best six will be selected to count 20% in the total. Finally, bonus points may be awarded to participation in class discussions either on new material or very difficult homework assignments.

This syllabus and other course materials will be posted on the web at http://www.unc.edu/~wux/index101.html.

The final exam schedule is posted at http://regweb.unc.edu/calendars/finals072.php. Please contact the Dean’s Office for any conflicts/changes of your final date/time.
Texts and Other Readings

The textbook for this course is *Microeconomics, fifth* edition, by Robert S. Pindyck and Daniel L. Rubinfeld (later referred to as P&R). Readings from the textbook are required. You should browse through the required readings for the week before the class meetings and then read them thoroughly after the class. If you have extra time, supplemental readings given in classes are also highly recommended. In addition, I will cite some journal and press articles to entertain your broader interests on the consumer and producer behaviors.

Class Schedule and Reading List

I. Introduction:
   Readings: P&R chs 1-2
   Contents:
   1) What is microeconomic theory?
   2) Positive vs. normative analysis.
   3) Definitions: rationality (optimization/expectation), market, real vs. nominal prices, demand and supply, elasticities.
   4) Market mechanism and government intervention.

II. Consumer Theory:
   Readings: P&R chs 3-5
   Contents:
   1) Consumer behavior:
      • Preferences and tastes.
      • Budget constraints.
      • Revealed preference and utility.
   2) Market demand:
      • Income and substitution effects.
      • Consumer surplus.
      • Externalities.
   3) Uncertainty:
      • Why there is risk?
      • Preferences under risk.

III. Producer Theory:
   Readings: P&R chs 6-8
   Contents:
   1) Technology:
      • Variable vs. fixed inputs.
      • Average and marginal products. (optional)
      • Law of diminishing returns and economies of scale.
      • Production functions.
   2) Cost of production:
      • Economic vs. accounting cost.
      • Short-run vs. long-run cost. (optional)
3) Profit maximization:
   • Choosing output in the short-run vs. in the long-run.
   • Short-run vs. long-run supply curve.
   • Firm’s vs. industry’s supply curve.
   • Producer surplus.

IV. Market Structure:
   Readings: P&R chs 9-12
   Contents:
   1) Perfectly competitive markets:
      • Perfectly competitive market vs. imperfectly competitive markets.
      • Operation of a competitive market: equilibrium and the shifting parameters.
      • Government interventions: minimum prices/wages, production subsidies and quotas, consumption taxes, import quotas and tariffs.
   2) Monopoly and monopsony markets:
      • Definitions: monopoly and monopsony markets, monopoly and monopsony power, contestable markets.
      • Equilibrium and social costs in a monopoly/monopsony market.
      • Price discrimination: peak-load pricing, two-part tariff, bundling, advertising.
      • Government regulation: antitrust laws.
   3) Monopolistic competition:
      • Operation of a market under monopolistic competition.
   4) Oligopoly:
      • Cournot vs. Bertrand oligopoly.
      • Stackelberg equilibrium.
      • Homogeneous vs. differentiated good markets.
      • Cartels.
      • Implications of the Prisoners’ Dilemma: price rigidity and signaling, etc.

V. Input Markets:
   Readings: P&R ch 14
   Contents:
   1) Competitive factor markets.
   2) Factor markets with monopsony power.
   3) Factor markets with monopoly power.

VI. Market Failure:
   Readings: P&R ch 17-18
   Contents:
   1) Markets with asymmetric information:
      • Market for lemons.
      • Signaling.
      • Moral hazard and adverse selection: efficiency wage theory.
      • Principal-Agent problems.
   2) Externalities and public goods:
      • What is a public good and what are the externalities?
      • Property rights.
      • Can a government correct this market failure?