

Lecture 0: Introduction

Intermediate Microeconomics

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Today's Agenda

- **Course Overview**
- **Logistical stuff**
- **Budget Constraint**
(Lec1)

What is Microeconomics?

Microeconomics is the study of the allocation of scarce resources

- **Individuals** decide which goods to consume, and how much to consume
- **Firms** decide which goods to produce, how much to produce, and how to produce them
- **Government** decides whether to tax or subsidize people, provide public goods, and regulate industries etc.

We are going to study how these subjects interact with each other in a market economy, and consequently determine the equilibrium and the resource allocation.

What tools do we use to study Micro?

Economic models

- Parsimonious representation of reality
- Based on a large set of assumptions
- To capture essential features of a situation
- To make predictions about what obtains “in general”

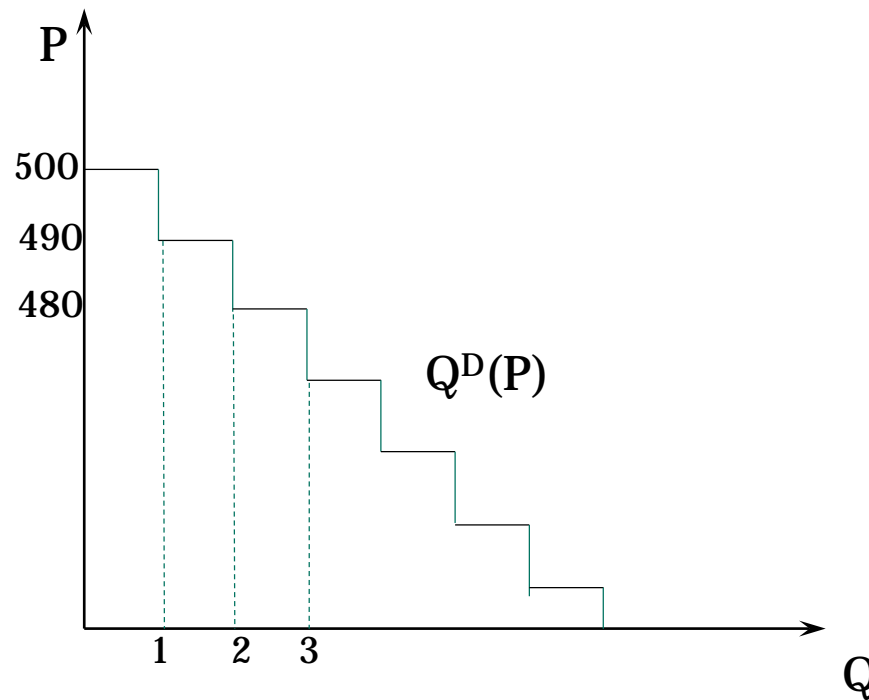
“All models are wrong, some are useful.”

George E. P. Box

A Private Housing Market

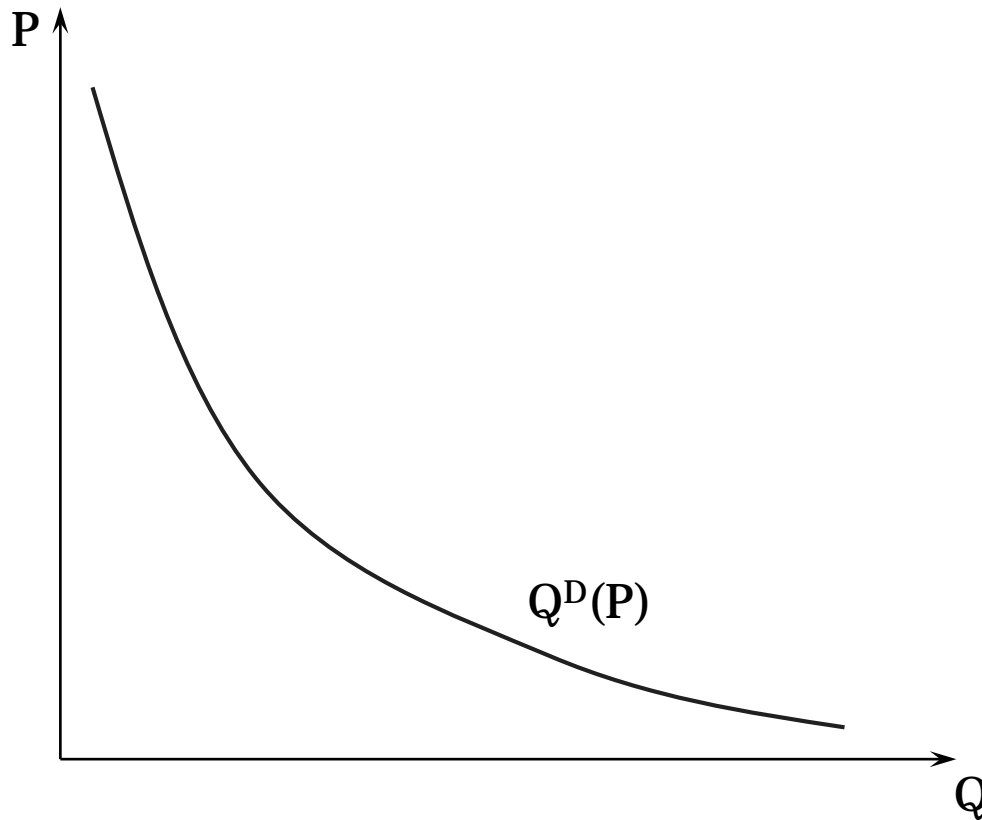
Many buyers in the market, whose reservation prices are ¥500, 490, 480, 470 ..., respectively

Demand curve for housing:



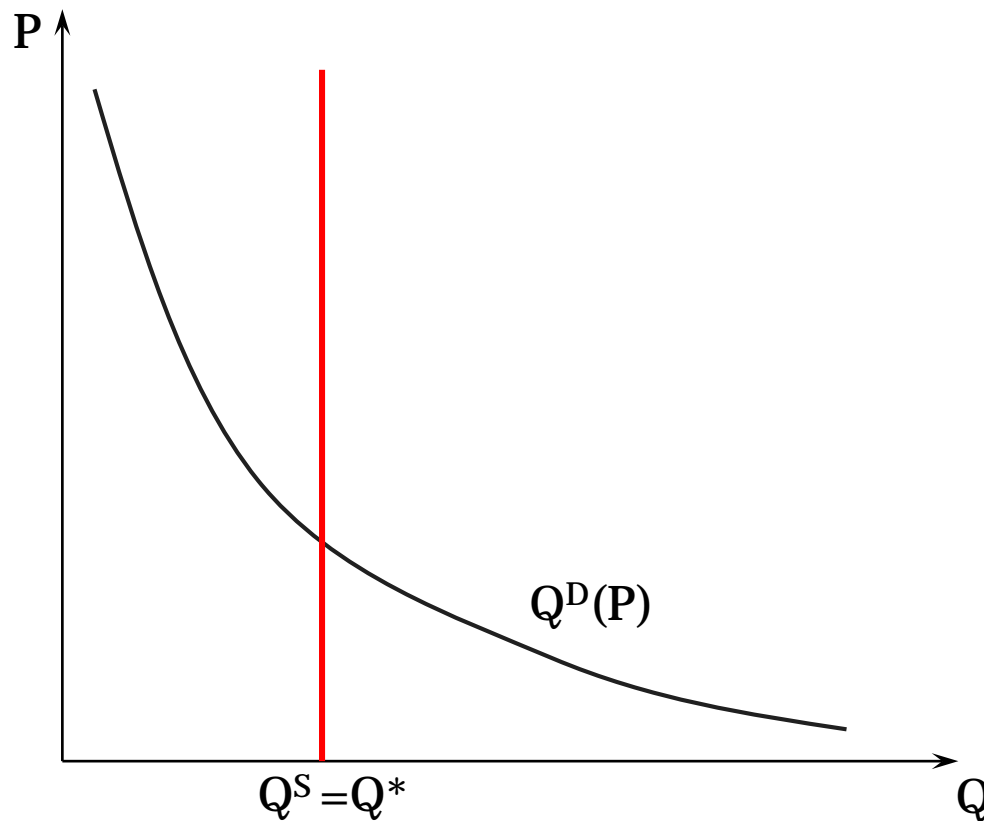
A Private Housing Market

With infinitely many buyers, the demand curve becomes a smooth curve.



A Private Housing Market

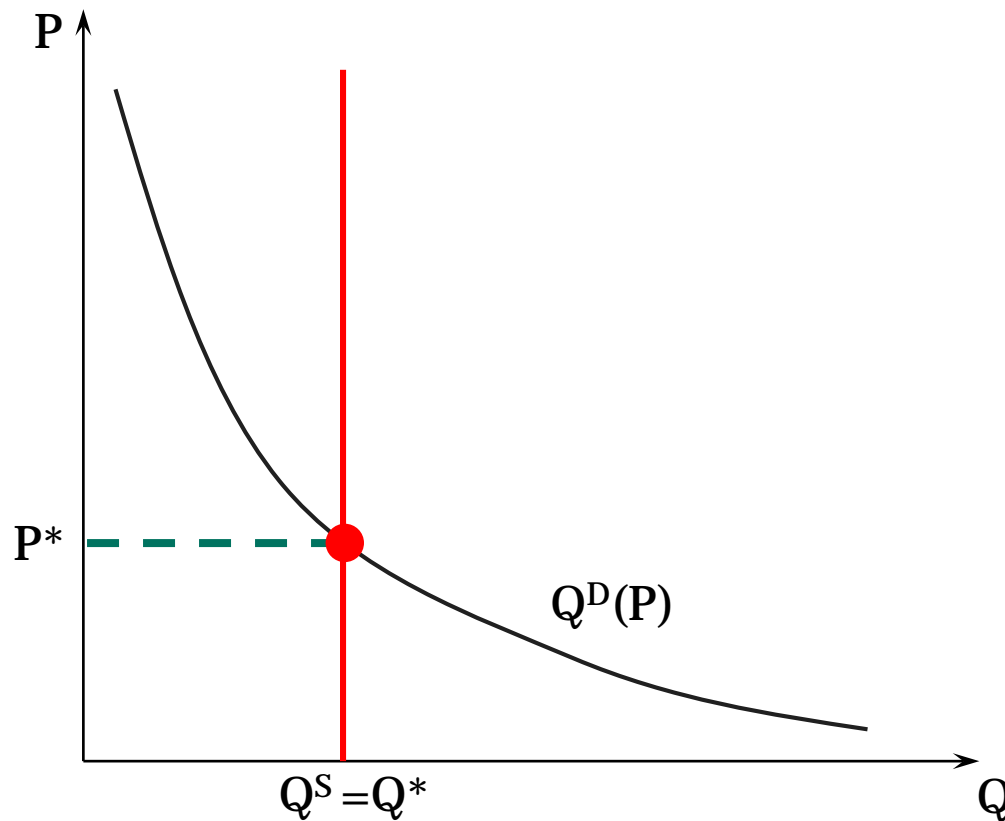
In the short-run, the quantity of housing is fixed so the supply curve is vertical.



A Private Housing Market

The equilibrium condition is:

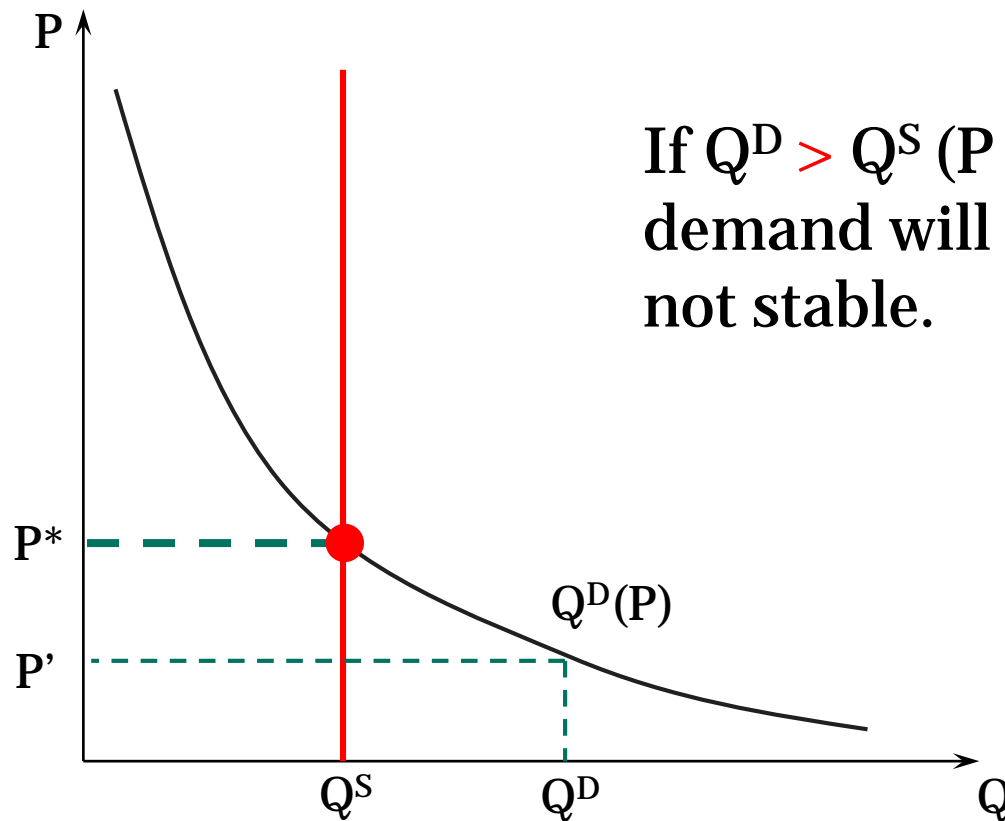
$$Q^D(p) = Q^S(p)$$



A Private Housing Market

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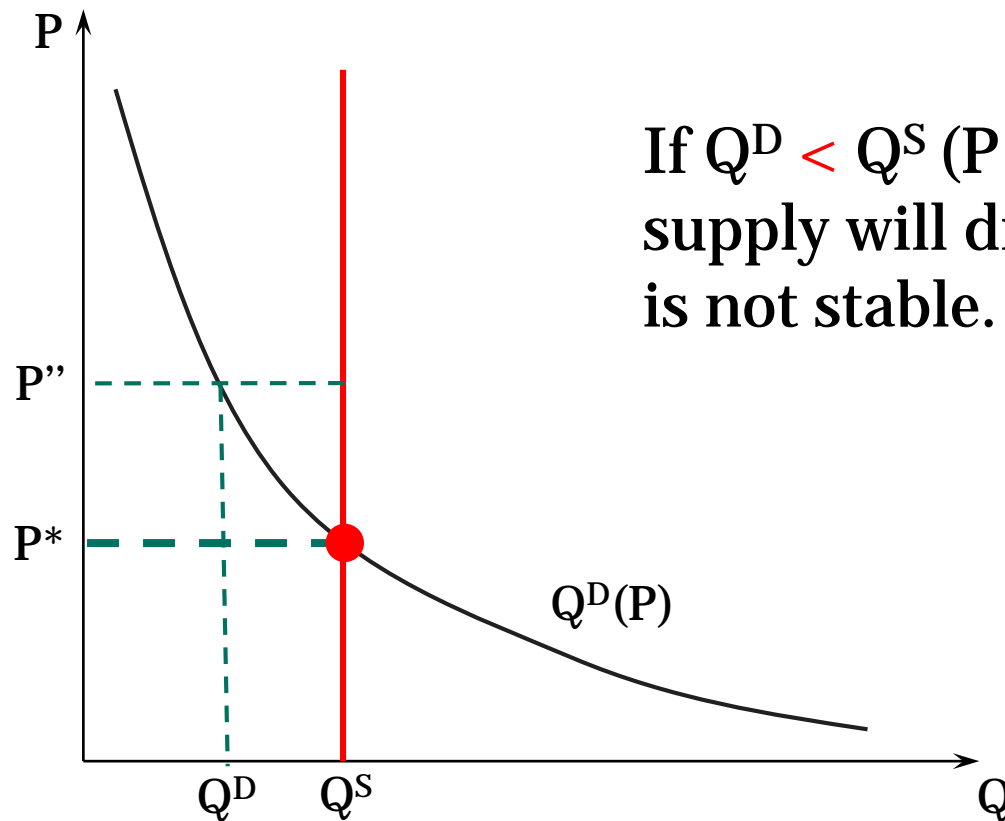
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A Private Housing Market

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$$Q^D(p) = Q^S(p)$$

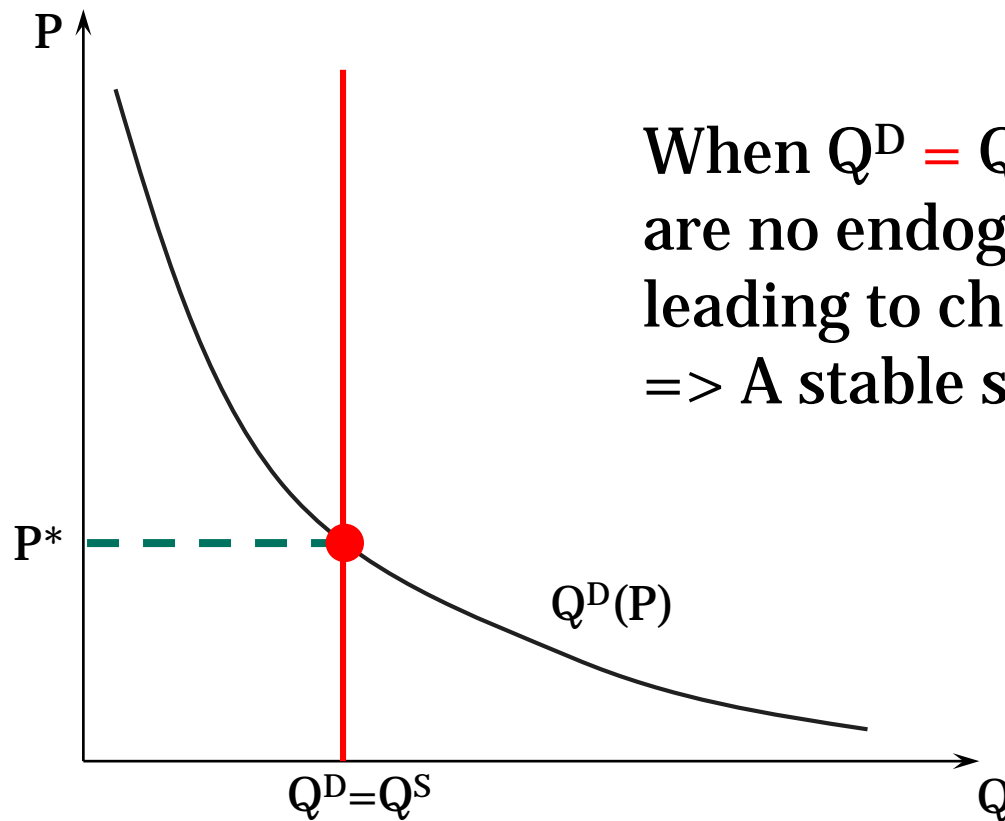


If $Q^D < Q^S$ ($P = P''$), excess supply will drive P down. P is not stable.

A Private Housing Market

The equilibrium condition is:

$$Q^D(p) = Q^S(p)$$



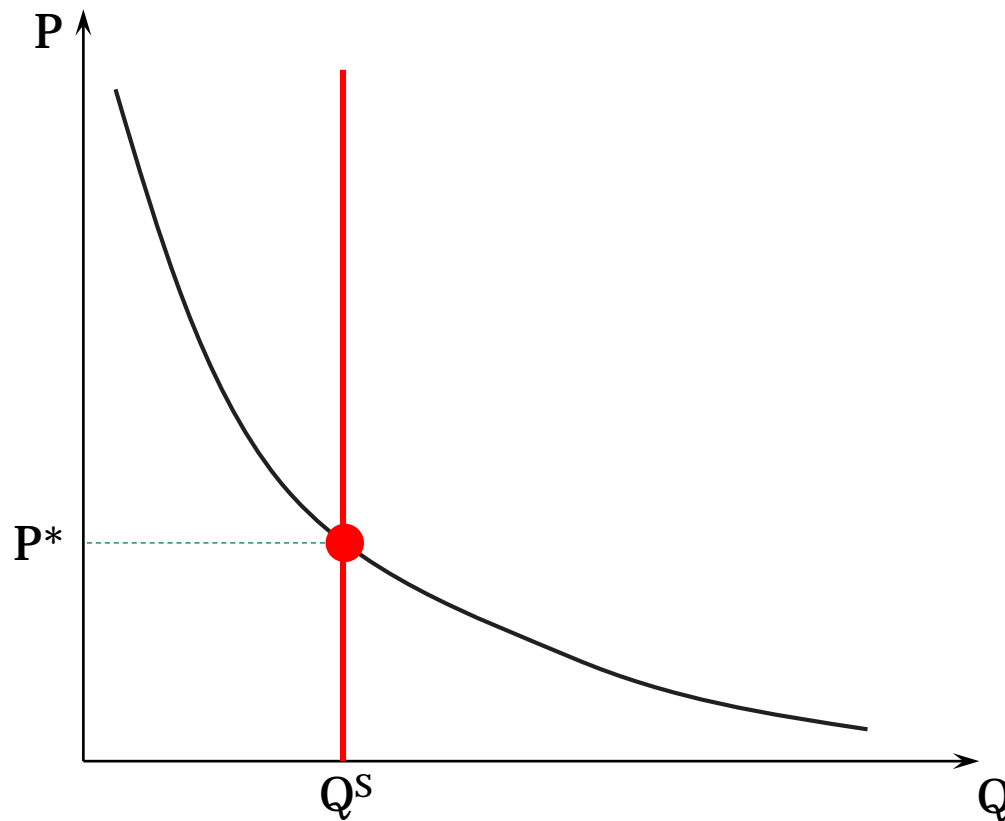
When $Q^D = Q^S$ ($P = P^*$), there are no endogenous forces leading to changes in P or Q
 \Rightarrow A stable state

The Effect of Public Policy

Suppose the government increases the supply of public housing. How would that affect the private housing market?

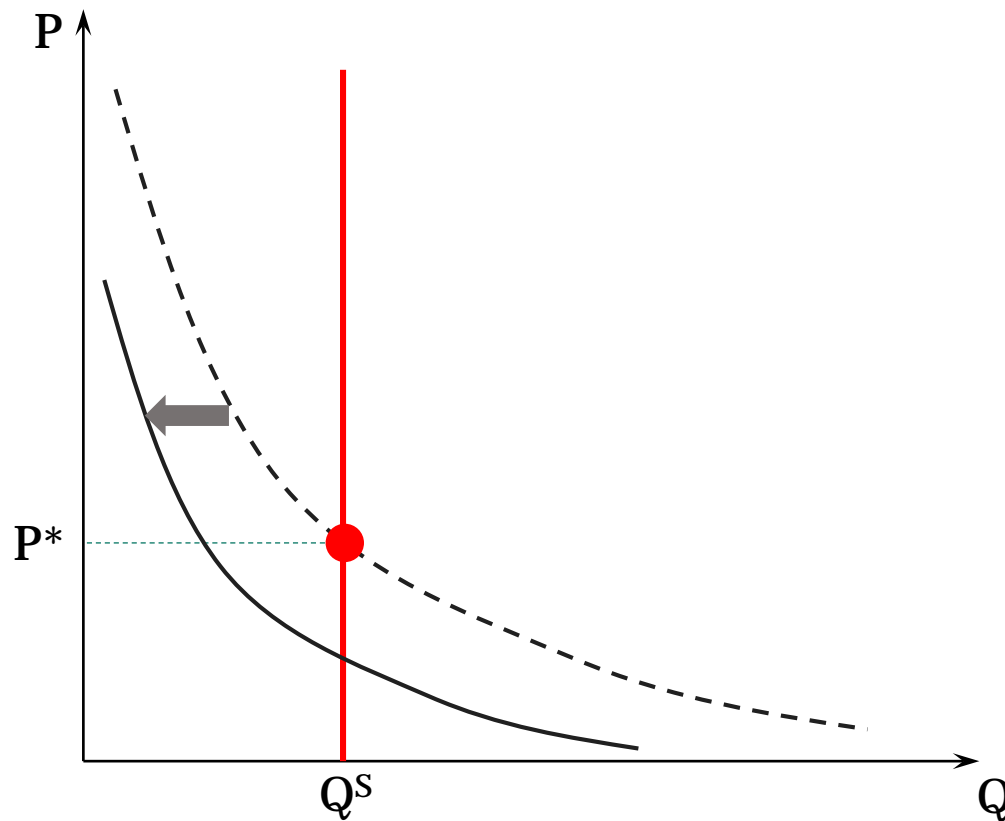
The Effect of Public Policy

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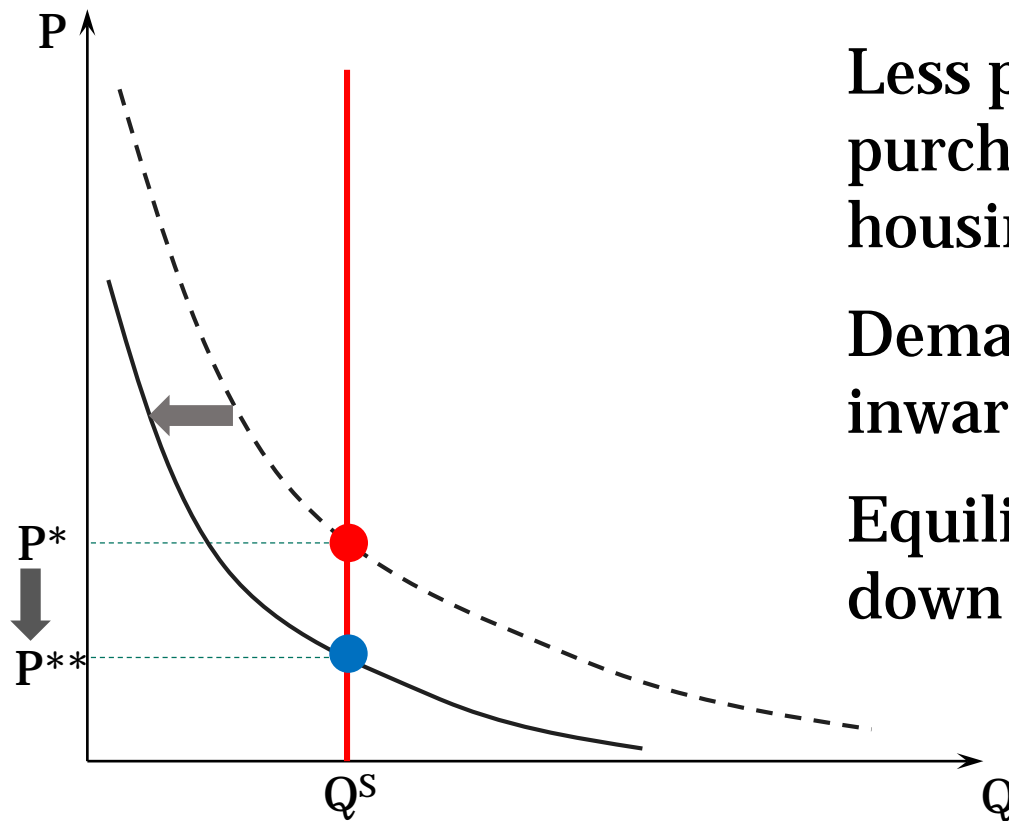
The Effect of Public Policy

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The Effect of Public Policy

Suppose the government increases the supply of public housing. How would that affect the private housing market?



Less people need to
purchase private
housing =>

Demand curve shifts
inward =>

Equilibrium price goes
down

The model of private housing market:

- Is parsimonious representation of reality
- Is based on a large set of assumptions
 - identical houses, constant income, fixed supply etc.
- Captures the key relationships between quantity and price
- Makes predictions about how policies will affect the market

Textbooks

Intermediate Microeconomics: A Modern Approach (Ninth Edition) by Hal R. Varian

《微观经济理论：现代观点》，费方域、朱保华译，格致出版社/上海三联书店/上海人民出版社。

Workouts in Intermediate Microeconomics (Ninth Edition) by Theodore C. Bergstrom and Hal R. Varian (习题册)

《微观经济学：现代观点》练习册（第九版），费方域、李双金译，格致出版社。

Course Outline

1. Consumer demand

1.1 Budget constraint (ch2)

1.2 Preferences and Utility (ch3, ch4)

1.3 Optimal Consumption Choice (ch5)

1.4 Individual Demand (ch6)

1.5-1.6 Topics in Consumer Demand (ch7, ch8)

1.7 Intertemporal Choice (ch9, ch10)

1.8 Consumer Surplus (ch14)

1.9 Market Demand and Equilibrium (ch15, ch16)

Course Outline

2. Producer Behavior

2.1 Technology (ch19)

2.2 Profit Maximization (ch20)

2.3 Cost Minimization (ch21)

2.4 Cost Curves (ch22)

2.5 Firm Supply and Industry Supply (ch23, ch24)

Course Outline

3. Market Structure and Strategy

3.1 Monopoly (ch25)

3.2 Price Discrimination (ch26)

3.3 Oligopoly (ch28)

4. Other Topics

4.1 Game theory (ch29)

4.2 General Equilibrium: Exchange (ch32)

TA Sessions

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Sessions:

Wednesday, class7-8 (双周)

理教309

Reminder: There is a problem set due in each TA session

Grading

- Homework: 7 assignments * 2 points/each
 - graded based on **accuracy** and **effort**;
 - due in TA sessions; late submission will not be accepted
- Class participation: 1 point
- Midterm: 35 points
- Final: 50 points (*cumulative*)

**Your grade = homework + class attendance +
midterm×0.35 + final×0.5**

How can I do well in this class?

- Stay actively involved in class
- Don't fall behind on reading or homework assignments
- Solve more problems than you think you need to solve; deeply understand the “why” behind the main concepts
 - Overconfidence Bias – You think you know more than you do
- Stay healthy. Get enough sleep!

Next :
Budget Constraint