

# Adventures in Microeconomics



# Introduction (1/1)

- This course investigates the many decisions of consumers and producers and their interactions in markets.
- Chapter Outline:
  - 1.1 Microeconomics
  - 1.2 This Book

# Microeconomics (1/6)

The focus of this course is *microeconomics*.

Microeconomics: the branch of economics that studies specific choices made by consumers and producers

In contrast, macroeconomics studies markets through a wider lens and is a description of the larger, complex system in which consumers and firms operate.

# Microeconomics (2/6)

## Intermediate versus Principles of Microeconomics

Similar outline and content, but important differences:

1. Use of mathematics in models and graphs
2. Deeper level of analysis
  - Example: Law of Demand or Law of Supply
3. Policy focused
  - Helps develop and/or predict how various policies alter individuals' and firms' incentives and behaviors.

# Microeconomics (3/6)

What tools do we use to explore the study of microeconomics?

Start with *theories and models*: explanations of how things work that help us understand and predict how and why economic entities behave as they do

To learn the theories and models, we use the tools of graphs and mathematics.

We then use these to look at how people and firms actually behave in real life.

*The interaction between microeconomic theory and the events, decisions, and empirical data from the real world lies at the heart of microeconomics.*

# Microeconomics (4/6)

Each chapter in the book includes the following sections that illustrate this interaction:

1. Application Sections: These are used to help understand the theory at work by showing how microeconomics can be used to inform economic decision making in a variety of real-world situations.
  - Some applications consider the specifics of how consumers and producers act in real life
  - Other applications look at current microeconomic research to see how the data gathered by microeconomists inform and test the predictions of theory across a wide range of topics such as:
    - golf tournaments, phone services, gym membership usage (or lack thereof), patent length and cancer drug development, etc.

# Microeconomics (5/6)

2. Freakonomics Essays: present surprising ways in which economic analysis provides a unique perspective for exploring a variety of interesting topics in the world around us
  - These essays give us a framework for thinking about economic phenomena that surround us.
  - Essays consider topics as diverse as a homemade toaster to why fishermen love their cell phones.

# Microeconomics (6/6)

Practicing the Tools of Microeconomics in this book:

1. **Figure It Outs:** Each chapter offers several of these worked out problems.
  - These illustrate how to translate theory, graphs, and mathematics into successful problem-solving skills and show step-by-step solutions.
2. **Problems:** The end of each chapter includes problems to further solidify the topics you've learned.
  - Some select problems have solutions in the back of the book.
3. **Make the Grade Boxes:** Included in most chapters, these offer hints and explanations about how to navigate the sometimes confusing path through microeconomic theory and its application.
  - These help you avoid some common mistakes made by students.

# This Book (1/7)

## Overview of Topics:

### I. Consumer and Producer Decisions

- We begin with an overview of how *consumer preferences* combine with the *decisions of firms* to determine the *price* and *quantity sold* of goods and services in Chapters 2 and 3.
- Next, we dig deeper into the demand side of the market with a focus on *consumers' decisions* in Chapters 4 and 5 and then *producers' decisions* in Chapters 6 and 7.

# This Book (2/7)

## II. Market Supply

This section compares many possible configurations through which firms supply output to markets.

- Start with the case of *perfect competition* in which firms take the market price as given in Chapter 8.
- Then move to the other extreme with the *monopoly* case in which the firm can choose the price it sells its products for in Chapter 9.
- Chapter 10 explores ways for monopolists to use their pricing power.

# This Book (3/7)

## II. Market Supply, cont.

- *Oligopolies* are investigated as the final look at forms of a market supply in Chapter 11.
  - In oligopolies, multiple firms interact strategically in the same market and have some ability to choose their prices.
- These strategic interactions among firms raise interesting questions that can be analyzed using the tools of *game theory* (Chapter 12).

# This Book (4/7)

## III. Beyond the Basics

In the final section of the book, we study several specific subjects that are present in many markets.

- The first specific topic is *factor* or *input* markets in Chapter 13.
- Next, we explore the combined role of *risk*, *uncertainty*, and *time in economic decision making* in Chapter 14.
- We then explore how markets are *interconnected* in Chapter 15.

# This Book (5/7)

## III. Beyond the Basics, cont.

We examine a series of situations in which markets might not work well:

- One set of situations occurs when *information* is not equally shared by all potential parties in a transaction (Chapter 16).
- A second set of situations occurs when market transactions produce *externalities* that positively or negatively affect people who are not involved in the transaction OR in markets in which a good's benefits are shared across many people at the same time (Chapter 17).
- The book concludes with an exploration of *behavioral economics* in Chapter 18.

# This Book (6/7)

## Focus on Data

Thanks to the computing revolution, microeconomics has become more of an **empirical** field that allows for more use of data analysis and experiments, and not just abstract theory, to explore economic phenomena.

# Application

## The Benefits of Studying Economics

Economics courses provide a set of tools that help better equip individuals to make all sorts of decisions, not just economic ones.

Black, Sanders, and Taylor analyzed the earnings of college graduates based on choice of major:

- Used data from the National Survey of College Graduates and the U.S. Census
- **Found: Economics majors earn almost 20% more than graduates with degrees in any other social science.**
  - Accounting, Finance, and Marketing similar returns

Later controlled for “selection bias” into majors:

- **Found: Economics majors who went to law school and studied economics in undergrad earned more than students with other majors—35% more.**
  - Results similar for those who got their MBA



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# This Book (7/7)

## Let the Fun Begin!

By the end of your microeconomics course, you will have the resources necessary to examine the world as an economist does.

*You will not only be able to think like an economist, you'll be able to see how useful this thinking is.*