

Econ 121.01A
Principles of Microeconomics
Spring, 1993

Instructor: Frank Maddox
312 Seney Hall
Phone: 784-8357
Office Hours: M-F 11:00 - 12:00; 2:00 - 3:00

Course Description: Econ 121 provides a thorough study of the role of markets and prices in the allocation and distribution of goods and services. The course begins by analyzing the forces of demand and supply and the establishment of equilibrium prices. Consumer responsiveness to changes in income and prices is studied. The course then focuses on producer decision, costs of production, and the concept of profit maximization. These topics are combined for an analysis of the four major types of product market structure: pure competition, monopoly, monopolistic competition, and oligopoly. The course then examines both conceptual and institutional issues regarding the operation of labor and other input markets. International trade issues, including tariffs, quotas, and arguments for free trade, are discussed. Public policy and market failures as well as the microeconomics of taxation are analyzed.

Course Objective: The goal of Econ 121 is to provide an introduction to the economic way of thinking and to the economist's view of the world. The course attempts to develop a student's ability to think analytically about the economic forces at work in society. Students learn both a specific set of analytical tools and how to apply them to current policy issues.

Method of Instruction: The course is taught with a combination of lecture, discussion, problem sets, and examinations. Class interaction and the analysis of specific economic problems are stressed.

Text Required to be Purchased by the Student:

Robert B. Ekelund, Jr. and Robert D. Tollison. Economics, 3rd edition. Harper Collings Publishers Inc., 1991.

Examinations: There will be three in-term exams and a comprehensive final examination. The dates assigned for the exams will not change. However the material covered on each exam may deviate from the course schedule according to progress in lecture.

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Grading Policy: Each in-term exam accounts for 20% of the course grade. The final exam accounts for 25% of the course grade. Homeworks and quizzes are worth 15% of the grade. Exams and homeworks will be graded numerically. Your numerical average will be converted into a letter grade:

A	= 94 up to 100
A-	= 90 up to 94
B+	= 87 up to 90
B	= 84 up to 87
B-	= 80 up to 84
C+	= 77 up to 80
C	= 74 up to 77
C-	= 70 up to 74
D+	= 67 up to 70
D	= 60 up to 67
F	= 0 up to 60

Attendance Policy: Attendance is required and will be recorded each class period.

Make-up Examination Policy: Make-ups will be permitted only with written support (approved by the instructor) of serious situations which preclude the student's ability to take the exam during the scheduled time.

Important Dates

January 18 - Dr. Martin Luther King, Jr. Holiday - No class
February 12 - Exam I
February 16 - Last day to drop without academic penalty
March 8-12 - Spring Break
March 22 - Exam II
April 21 - Exam III
April 26 - Last Class
Friday, April 30 - Final Exam 2-5 p.m.

Course Outline

Week 1 Jan. 13-15

The economic way of thinking and an overview of the main themes of the course. Review of basic math and graphs. The production possibilities curve and the concept of opportunity cost.

Chapter 1. Economics in Perspective

Chapter 2. Economic principles

Week 2 Jan. 20-22

Specialization and trade. The market system and the circular flow. American mixed capitalism. Government functions and expenditures at the federal, state and local levels. The concept of demand and the factors that influence it. Individual versus market demand. Change in demand versus change in quantity demanded. Supply and the factors that determine it. change in supply versus change in quantity supplied.

Chapter 3. Economic Institutions and the Role of Government

Chapter 4. Markets and Prices: The Laws of Demand and Supply

Week 3 Jan. 25-29

The market mechanism continued. Market equilibrium. Price floors and ceilings. The concept of elasticity. Own-price elasticity; arc versus point elasticity. Relationship between price elasticity, changes in prices, and changes in total revenue. Determinants of price elasticity. Income elasticity; normal versus inferior goods. Cross-price elasticity; substitute versus complementary goods. Elasticity of supply.

Chapter 5. Elasticity

Week 4 Feb. 1-5

Theory of consumer behavior. Income and substitution effects. Law of diminishing marginal utility. Utility-maximizing rule. Marginal utility and demand. Indifference curve analysis.

Chapter 6. The Logic of Consumer Choice and Demand

Week 5 Feb. 8-10

The nature of business organization. Review.

Chapter 7. The Firm

Exam I - February 12 - Chapters 1-7

Week 6 Feb. 15-19

Production functions. Fixed versus variable inputs. short-run versus long-run. Total, average, and marginal products of the variable input. Law of diminishing returns. Cost functions: define total fixed, total variable, total cost; average fixed, average variable, average total cost; marginal cost. Relationship between cost curves and product curves. Implicit versus explicit costs. Normal versus economic or pure profits. Long-run costs. Economics and diseconomics of scale. Minimum efficient scale.

Chapter 8. Production Principles and Costs to the Firm

Week 7 Feb. 22 - 26

Production functions and costs continued. Profit maximization -- the goal of profit maximization versus the actual realization of profits. Equality of marginal revenue and marginal cost. The model of pure or perfect competition. Assumptions of the model. The industry versus the firm. Shapes of supply and demand curves for both. Changes in industry demand and supply and the effect on the firm. Significance of the equality of marginal revenue and marginal cost, or price and average total cost, and of price and marginal cost.

Chapter 9. The Competitive Firm and Industry

Week 8 March 1 - 5

The model of perfect competition continued. The model of pure monopoly. Reasons for the existence of monopoly or market power. Monopoly price and output determination. Economic effects of monopoly. Price discrimination. Natural monopolies and their regulation.

Chapter 10. Monopoly: The Firm as Industry

Week 9 March 15-25

Monopoly continued. Review.

Chapter 19. Regulation and Public Policy

Week 10 March 22-26

Exam II - March 22; Chapters 8-10, 19

The model of monopolistic competition. Short-run versus long-run. Role of Advertising and product differentiation. Oligopoly models. Role of interdependence. Pricing strategies.

Chapter 11. Monopolistic Competition

Chapter 12. When Competitors are Few: Game Theory, Oligopoly and Cartels

Week 11 March 29 - April 3

Oligopoly continued. Basis principles of factor markets with emphasis on labor markets. Derived demand. Marginal productivity theory. Optimum combination of resources. Wage determination and differentials. The role of unions.

Chapter 14. Marginal Productivity Theory and Wages

Chapter 15. Labor Unions and Imperfect Competition

Week 12 April 5-9

Factor Markets continued. Public policy and market failure. Externalities and public goods. Cost-benefit analysis.

Chapter 20. Market Failure and Public Policy

Week 13 April 12-16

The microeconomics of taxation. Benefit and ability to pay principles of taxation. Types of taxes.

Chapter 21. The Microeconomics of Taxation

Week 14 April 19-23

Catch-up and Review.

Exam III; April 21; Chapters 11, 12, 14, 15, 20, 21