

# Introductory Microeconomics

## Economics 10004

Professor Phillip McCalman  
University of Melbourne

# Subject overview

- The basic economic problem:
  - ▶ Human wants are unlimited
  - ▶ But the means to satisfy those wants are limited
- Hence, how do we make choices on
  - ▶ what to produce?
  - ▶ how to produce?
  - ▶ for whom to produce?
- Economics offers a "way of thinking" that can help answer these questions

# Subject overview

- Microeconomics is about
  - ① the behaviour of individual decision-makers
  - ② their interaction through exchange and in markets
- Two-stage approach to mastering microeconomics
  - ① learn key economic concepts, theories and methods
  - ② apply them to situations and problems
- The focus of this subject is geared towards making you apply the concepts and tools that you learn (case studies, news articles, and other applications)

# Subject overview

- Important details:

- ▶ Read the subject guide!
- ▶ Key personnel -- lecturers, tutorial coordinator, tutors
- ▶ Lectures --  $2 \times 1$  hour, weekly
- ▶ Tutorials --  $1 \times 1$  hour, weekly
- ▶ Textbook
  - ★ Principles of Microeconomics, any edition by Mankiw, King, Gans and Byford (GKBM)
  - ★ Microeconomics: Case Studies and Applications, any edition by Borland

# Lectures and Repeats

Wed	1:00 pm	The Spot-B01 (Copland Theatre)
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Wed	4:15pm (repeat)	The Spot-B01 (Copland Theatre)
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Fri	8:00 am	The Spot-B01 (Copland Theatre)
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Fri	12:00pm (repeat)	The Spot-B01 (Copland Theatre)
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# Economics and Social Media

- Use twitter and blogs to keep up to date
  - ▶ The Economist
  - ▶ Financial Times
  - ▶ Mark Thoma (& economist view blog)
  - ▶ Marginal revolution
  - ▶ Larry Summers, Paul Krugman, Joe Stiglitz & Susan Athey
  - ▶ Peter Martin, Financial Review, ACCC, Productivity Commission, RBA, Australian Treasury (Australia)
- Podcasts -- Planet Money

# Subject overview

- Assessments:

- ① Multiple choice test (5%)

- Monday, August 20, 9:00 to Wednesday, Aug 22, 14:00

- ② Assignment 1 (10%) -- due Monday, September 3, 14:00

- ③ Assignment 2 (15%) -- due Monday, October 8, 9:00

- ④ Tutorial participation and attendance (10%)

- ⑤ Final exam (60%) -- two-hour exam, date TBA

★ TO PASS THIS SUBJECT, YOU MUST PASS THE FINAL EXAM

# Subject overview

- Tutorials:

- ▶ Enrolment -- SWS online
- ▶ Pre-tutorial and in-tutorial tasks
- ▶ Participation marks
  - ★ Evidence of preparation for the tutorial
  - ★ Frequency of participation in discussion
  - ★ Relevance and logic of contributions
  - ★ Evidence of listening to other students' contributions



# Subject overview

- Resources:

- ▶ Subject homepage (LMS)
- ▶ Lecture slides, recordings, etc.
- ▶ Tutorial material, tutor consultation times
- ▶ Online tutor
- ▶ Assessment information
- ▶ Multiple choice test revision questions
- ▶ Exam review information

# Course Outline

- Introduction
- Perfectly Competitive Markets
  - ▶ Aggregating and coordinating individual behaviour
- Welfare and Markets
  - ▶ What we can expect when things go right
  - ▶ What happens when things go wrong (market failures)
- The firm and managerial economics
  - ▶ Drill down into the decision making of firms
  - ▶ Which inputs, outputs and prices?
  - ▶ Market structure and firm behaviour
- Game theory
  - ▶ Strategic interaction/interdependence

# Introduction to key concepts

The underlying assumption of economic theories is rationality

- Decision-makers are rational. They
  - ▶ have well-defined objectives
  - ▶ make choices that are consistent with achieving those objectives
- For example, firms take actions that are consistent with profit maximisation

# Introduction to key concepts

## Decision theory in economics

- Actions are associated with benefits and costs
- The objective function:

$$\text{net benefit (NB)} = \text{total benefits (TB)} - \text{total costs (TC)}$$

- The best (optimal) action for a rational decision-maker is the one that maximises net benefits

# Introduction to key concepts

How to measure costs?

- When a decision-maker chooses an action, the resources used in taking that action become unavailable for alternative uses
- The cost of an action should then be measured in terms of those resources
- To measure the value of those resources, we consider their next best alternative use

The opportunity cost of an action reflects the value of resources used in taking that action in their next best alternative use