**Microeconomics**

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Course description

* 1. Pre-requisites

Good understanding of high school mathematics, including basic calculus.

* 1. Abstract

The Introductory Economics (Microeconomics–1) is a one semester course designed to teach students the main concepts of economics. The course is taught in English, but the main ideas and concepts can be explained in Russian as well during class work.

Goals of the course:

1. Provide an analysis of the behavior of individual economic agents, including consumer behavior and demand, producer behavior and supply, price and output decisions by firms under various market structures, factor markets, market failures.
2. Explain the core concepts of microeconomics. Students should be able to understand the fundamental concepts and evaluate them using analytical tools.
3. Develop students ability to critically evaluate and understand how individual decision-makers behave, microeconomists build models, use data and conduct experiments.
4. Enable students to participate in debates on microeconomic issues and policies.
5. Creating an academic atmosphere in which students may develop their intellects and skills.

Learning outcomes

After studying all materials and resources presented in the course, the student will be able to:

1. Explain the role of scarcity, specialization, opportunity cost and cost/benefit analysis in economic decision-making. Ability to use theoretical concepts of Scarcity, trade-offs, find Opportunity cost, and apply Marginal analysis
2. Identify the benefits of free trade using the concept of comparative advantage. Ability to use theoretical notions, concepts of Absolute and Comparative advantage and interpret results.
3. Identify the determinants of supply and demand; demonstrate the impact of shifts in both market supply and demand curves on equilibrium price and output, define equilibrium, solve equations.
4. Calculate supply and demand elasticities, identify the determinants of price elasticity of demand and supply, and demonstrate the relationship between elasticity and total revenue. Ability to find and interpret price Elasticity of Demand, define Determinants of Elasticity, Total Revenue, Income Elasticity, Cross-Price Elasticity of Demand, Elasticity of Supply.
5. Summarize the law of diminishing marginal utility; describe the process of utility maximization. Construct Budget Constraint and Utility, Total and Marginal Utility, define Unconstrained Choice, Law of Diminishing Marginal Utility, Constrained Choice, Utility Maximizing Rule.
6. Productivity; calculate and graph short-run and long-run costs of production, Accounting and Economic Profit, define Explicit and Implicit Costs. Calculate and graph short-run and long-run costs of production.
7. Identify the four market structures by characteristics; calculate and graph the profit maximizing price and quantity in the output markets by use of marginal analysis. Ability to define structural characteristics of Perfect competition, Demand, Profit Maximization, Short-Run Profits, Decision to Shut Down, Long-Run Adjustment.
8. Determine structural characteristics of Monopoly and Monopolistic competition, Monopoly Demand, Profit Maximization, Efficiency Analysis, solve problems on Price Discrimination.
9. Determine structural characteristics of Oligopoly, Industry Concentration, Prisoners’ Dilemma, Collusion.
10. Determine the profit maximizing price and quantity of resources in factor markets under perfect and imperfect competition by use of marginal analysis. Define structural characteristics of competitive markets, Marginal Revenue Product, Profit Maximizing Employment, Derived Demand, Determinants of Resource Demand.
11. Describe governmental efforts to address market failure such as monopoly power, externalities, and public goods. Ability to define Private and Public Goods, Spillover Benefits and Positive Externalities.

Methods of Instruction

* lectures
* classes
* written homework assignments
* self-study
* office hours/consultations

Reading List

* 1. Required

Case, K., R. Fair, S. Oster (CFO). Principles of Economics. 11th or 12th Edition. Pearson. 2013. The chapters from CFO covered in the course are indicated in the Course Outline.

* 1. Optional

1. Frank, R. and B.Bernanke (FB). Principles of Microeconomics. Fourth edition. McGraw Hill, 2008.
2. Frank, R. and B.Bernanke. Prepared by J. Mogab and L. Johnston. Study Guide for use with Principles of Microeconomics. Third Edition. McGrawHill, 2007.
3. Begg, D., R.Dornbusch, S.Fischer (BDF). Economics. Tenth edition. McGraw Hill. 2011.
4. Mankiw, N.G. Principles of Economics. The Dryden Press, 1998. Русский перевод: Мэнкью Н.Г. Принципы Экономикс, Питер,С. Петербург, 1999.
5. Ward D., and D.Begg. Students Workbook for Economics. Seventh Edition. McGraw Hill. 2003.
6. Самуэльсон П., Нордхаус В. Экономика. Бином КноРус, Москва, 1997. (Русский перевод 15го издания Economics by P.Samuelson).
7. Франк Р. Микроэкономика и поведение. М.: Инфра-М, 2003.
8. Ward, D. And Begg D. Students Workbook for Economics. Seventh Edition. McGraw Hill. 2003.
9. Экономическая теория. Вводный курс. Микроэкономика / Под ред. И.Е. Рудаковой. М.: ИНФРА-М, 2010.
10. Рудакова И.Е., Никитина Н.И. Микроэкономика. Программа, планы лекций и семинаров, тесты, задачи, ситуации. М. Дело и Сервис, 2011.
11. Bauman, Y. and G.Klein. The Cartoon Introduction to Economics: Volume One: Microeconomics. Hill and Wang. 2010.
12. Levitt, S. and  S. Dubner. Freakonomics: A Rogue Economist Explores the Hidden Side of Everything (P.S.)William Morrow Paperbacks. 2009.
13. Levitt, S. and  S. Dubner. SuperFreakonomics: Global Cooling, Patriotic Prostitutes, and Why Suicide Bombers Should Buy Life Insurance.William Morrow Paperbacks. 2011.
14. Lazear,E. Economic Imperialism. 1999. <http://www.nber.org/papers/w7300>
15. Heyne, P. Economics is a Way of Thinking. 2008. <http://oll.libertyfund.org/pages/heyne-economics-as-a-way-of-thinking>
16. Hazlitt H. Economics in one lesson: The shortest and surest way to understand basic economics. – Crown Business, 2010.
17. Wheelan, Charles. Naked Economics: Undressing the Dismal Science (Fully Revised and Updated). WW Norton & Company, 2010.

Special Equipment and Software Support

Laptop, projector, Internet connection

MS Word, MS Excel

Main Resources:

1. <http://icef-info.hse.ru/>
2. <http://www.icef.ru>
3. <https://www.socrative.com>

Other:

Open video courses:

Jonathan Gruber (MIT) “Principles of Microeconomics”

[https://academicearth.org/economics/#](https://academicearth.org/economics/)

Khan Academy course:

<https://www.khanacademy.org/economics-finance-domain/microeconomics>

The University of Queensland, Carl Sherwood “Principles of Microeconomics: An Economist Way of Thinking”

<https://www.edx.org/course/principles-of-microeconomics>

And many, many others…

Blogs:

Tyler Cowen: <http://marginalrevolution.com/>

Gregory Mankiw: <http://gregmankiw.blogspot.ru/>

Grading System and Examination Type

All assignments, including the final exam, are in written form.

Sample materials for knowledge assessment are available in ICEF Information system at <https://icef-info.hse.ru>.

The total grade is determined by the final exam in December (51%), midterm test (29%), homework assignments (10%), and class performance (10%). The formula is below:

G=0.1\*Gha+0.1\*Gclass+0.29\*Gmidterm+0.51Gexam

ha – home assignment

Class performance includes attendance (5%) and class assignments (5%) at the beginning of each class. Class assignments are graded out of 10. Class assignments may be provided in class or via <https://www.socrative.com>, all additional information will be provided by the class teacher.

All grades are given initially out of 100. The final grades are also transferred to 10- and 5-points grades in accordance with the ICEF Grading Regulations (par.3) available at BSc <https://icef-info.hse.ru/goto_icef_file_29833_download.html>

The assessment of the exam paper is based on the marking scheme that comes with the exam assignment. Each problem and their sub parts are worth a certain number of points, the sum of these points is equal to 100, which is the maximum grade for the exam on the 100 point scale. The student is awarded the assigned number of points for the correct answer to each part of the question and partial credit may also be awarded. Sample exam papers and answers with marking schemes from the previous years are made available to students before the exam date for reference and practice.

Retakes are organized in accordance with the HSE Interim and Ongoing Assessment Regulations (incl. Annex 8 for ICEF). Only winter exam is subject to retakes.

Grade determination after retakes is done in accordance with ICEF Grading Regulations (par. 5) available at BSc <https://icef-info.hse.ru/goto_icef_file_29833_download.html>

There are no blocking elements.

Course Plan

1. Introduction to Economics

Definition of Economics. Economic goods. Scarcity and choice. Opportunity costs and sunk costs. Economic Models. Microeconomics and Macroeconomics. Positive and normative economics.

CFO: Ch.1; CFO: Ch.2; FB: Ch.1

2. Comparative Advantage and Exchange Comparative advantage.

Production possibility frontier. Factors shifting the production possibility frontier. Specialization and exchange of goods. Comparative advantage and international trade. Economic systems: market economy, command economy, mixed economy.

CFO: Ch.2; FB: Ch.2

3. Supply and Demand

Market. Demand curve and its determinants. Supply curve and its determinants. Equilibrium. Producer surplus and consumer surplus. Deficit and surplus. Free market and price control.

CFO: Ch.3; CFO: Ch.4

4. Elasticity

Price elasticity of demand. Point and arch elasticity. Elasticity of Demand and Total Revenue of the firm. Cross-Price Elasticity. Price and Income. Elasticity of Demand. Application of elasticity theory. Taxation.

CFO: Ch.5; CFO: Ch.19

5. Consumer Choice

Preferences. Indifference curves. Marginal rate of substitution. Budget constraint. Consumer choice. Total and marginal utility. Adjustment to price and income changes: income effect and substitution effect. Normal and inferior goods. Substitutes and complements. In-kind and money subsidies.

CFO: Ch.6

6. Producer Theory: Revenues and Costs

The firm’s production decisions. Revenues, costs and profits. Total, average and marginal revenues. Short run and long run. Fixed and variable costs. Total, average and marginal costs. Profit maximization.

CFO: Ch. 7

7. Short-Run and Long-Run. Perfect competition

Costs in short run and in long run. Firm’s short run and long run output decisions. Economies and diseconomies of scale. Firm’s supply and industry supply. Perfect competition. Its advantages and disadvantages.

CFO: Ch.8; CFO: Ch.9, CFO: Ch.12

8. Monopoly and Monopolistic Competition

Types of market structures. Features of monopoly. Profit maximization under monopoly. Comparison with perfect competition: output and price. Social cost of a monopoly. Dead-weight loss. Regulation of monopoly. Natural Monopoly. Regulation of natural monopoly. Price discrimination. Industrial policy. Features of monopolistic competition. Comparison with perfect competition: output and price. Advertising.

CFO: Ch.13; Ch.14

9. Oligopoly

Features of oligopoly. Price wars and collusion. Game theory and interdependence. Prisoner’s dilemma. Cartels. Barriers to entry. Other forms of imperfect competition.

CFO: Ch.15

10. Factor Markets: Labor Market

Factors (inputs) of production. Derived demand for factors. Demand and supply of labor. Equilibrium in labor market. Trade unions. Minimum wages and unemployment. Differences in wages, economic rent. Human capital. Investments in human capital: costs and revenues. Signaling. Discrimination in the labor market.

CFO: Ch.10

11. Market Failures. Externalities and Public Goods

Income distribution. Market failure. Externalities. Public goods. Free-rider problem. Scope for government intervention. Government failure.

CFO: Ch.12, Ch.16, Ch.18

Distribution of hours

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **#** | **Topic** | **Total hours** | **Lectures** | **Seminars** | **Self study** | **Learning outcomes** |
| 1. | Introduction to Economics | 8 | 2 | 2 | 4 | be able to use theoretical concepts of Scarcity, trade-offs, find Opportunity cost, and apply Marginal analysis |
| 2. | Comparative Advantage and Exchange | 8 | 2 | 2 | 4 | be able to use theoretical notions, concepts of Absolute and Comparative advantage and interpret results |
| 3. | Supply and Demand | 8 | 2 | 2 | 4 | be able to define equilibrium, solve equations, analyse determinants of Supply and Demand |
| 4. | Elasticity | 8 | 2 | 2 | 4 | be able to find price Elasticity of Demand, define Determinants of Elasticity, Total Revenue, Income Elasticity, Cross-Price Elasticity of Demand, Elasticity of Supply and interpret results |
| 5. | Consumer Choice | 16 | 4 | 4 | 8 | be able to construct Budget Constraint and Utility, Total and Marginal Utility, define Unconstrained Choice, Law of Diminishing Marginal Utility, Constrained Choice, Utility Maximizing Rule |
| 6. | Producer Theory: Revenue and Costs | 16 | 2 | 4 | 8 | be able to calculate Accounting and Economic Profit, define Explicit and Implicit Costs, apply Short Run and Long Run analysis |
| 7. | Short-Run and Long-Run. The Firm in Perfect Competition | 16 | 2 | 4 | 8 | be able to define structural characteristics, Demand, Profit Maximization, Short-Run Profits, Decision to Shut Down, Long-Run Adjustment |
| 8. | Monopoly and Monopolistic Competition | 8 | 2 | 2 | 4 | be able to define structural characteristics of Monopoly and Monopolistic competition, Monopoly Demand, Profit Maximization, Efficiency Analysis, solve problems on Price Discrimination |
| 9. | Oligopoly | 16 | 4 | 4 | 8 | be able to define structural characteristics, Industry Concentration, Prisoners’ Dilemma, Collusion |
| 10. | Factor Markets: Labor Market | 8 | 4 | 2 | 4 | be able to define structural characteristics of competitive markets, Marginal Revenue Product, Profit Maximizing Employment, Derived Demand, Determinants of Resource Demand |
| 11. | Market Failures. Externalities and Public Goods | 8 | 4 | 2 | 4 | be able to define Private and Public Goods, Spillover Benefits and Positive Externalities |
|  | **Total:** | **120** | **30** | **30** | **60** |  |