Introduction to Microeconomics
Professor Henry Farber

email: farber@princeton.edu
Office: 107 Fisher Hall
Office Phone: (609)258-4044
Office Hours: Monday and Tuesday 1:30-3:00
Lecture: M/W 11:00-11:50 – McCosh 50
Organizer: Qi Ge (qge@princeton.edu)

Course Description: Economics is the study of how individuals, firms, and the institutions of an economy (e.g., markets) produce and allocate scarce resources. We will examine 1) the decision making of individuals regarding what and how much to consume, 2) the decision making of firms regarding what and how much to produce, 3) how these decisions are coordinated (for better and for worse) through market and other institutions, and 4) the role of public policy.

Classes: There are two lectures and one precept each week. Lectures start promptly at 11AM. Please be seated on time. All changes of precept must be arranged through the organizer.

Required Text: Parkin, Michael. Microeconomics, tenth edition. The text is available at Labyrinth Books. An earlier edition (or even another microeconomics text) will almost surely suffice, although you will be on your own to figure out the relevant readings. Other reading assignments will be made as needed during the term.

Course Requirements and Grading:

- Final Examination 40%
- Mid-Term Examination 30%
- Problem Sets & Participation in Precepts 30%

- The midterm examination is scheduled for the evening of Tuesday October 25.
- The final examination will take place during the final examination period at end of term.
- There will be eleven problem sets (one per week other than mid-term week) during the term. These problem sets will be graded on a 0, √−, √, √+ scale. I will drop the one problem set with the lowest grade.
- Problem sets must be turned in at the beginning of lecture in the lecture hall on the due date. Late problem sets or problem sets turned in elsewhere will not be graded. No excuses.

Other Important Points:

- We will be covering a lot of material, and it will pay to not fall behind.
- In order to reduce your note-taking burden and to allow you to focus on the lecture, I will post lecture notes on Blackboard.
- The posted lecture notes will not always include all material covered in lecture, and you will be responsible for all material.
- I will not always cover all of the slides in lecture. Some will be covered in precept and some you will study on your own.
- I do not closely follow the text. The text and the lectures are complementary resources.
- You will get more out of this course if you discuss the lectures, readings, and ideas with your classmates (and others). You are also encouraged to share ideas regarding the problem sets, but the work you turn in must be your own and prepared by you alone.
Course Outline

Lecture #

1. Introduction – What is economics I? – Parkin, ch 1, ch 2.
   - What is economics?
   - What does it mean to think like an economist?
   - Economics as a Social Science
   - Using Resources Efficiently: Marginal Analysis
   - The production possibilities frontier

2. What is economics II? – Parkin, ch 2, ch 3.
   - Division of Labor
   - Comparative advantage
   - Competitive Markets and Efficiency
   - Efficiency vs. Equity
   - Demand and supply
   - Market Equilibrium

   - The convenient notion of utility
   - Marginal utility
   - Opportunity cost
   - Budget constraints and indifference curves
   - Consumption Choice as the result of utility maximization

   - Individual demand curves
   - Income and substitution effects of price changes
   - Market demand curves
   - Consumer Surplus

   - Incomplete information
   - Probabilistic outcomes.
   - Expected Utility
   - attitudes toward risk
   - insurance
   - Risk seeking behavior: gambling
   - Elasticity Defined
   - Elasticity Calculated
   - Price elasticity of Demand

   - Income elasticity
   - Cross elasticity: What is a market?
   - Substitutes and complements
   - Movements along versus shifts in demand curves.

   - The Firm and its goals
   - Accounting profit vs. economic profit
   - Production functions
   - Cost functions.
   - Total, average, and marginal products
   - The law of diminishing marginal returns

   - Short run costs
   - Long run costs
   - Economies of scale
   - Equivalence of profit maximization and cost minimization

    - Firm-level decisions in a competitive market
    - Short-run equilibrium for the firm
    - The importance of free entry and exit
    - Long-run equilibrium of the firm
    - Long-run equilibrium of the industry
    - Competition and Efficiency

11. Question and Answer Session before Midterm Examination.

- Maximizing quantity: efficient resource allocation
- Consumer surplus, producer surplus, and total surplus
- The invisible hand: the role of prices
- The role of information
- What about equity?


- Market power
- Marginal revenue of a monopolist
- Pricing of a monopolist
- Output of a monopolist and welfare loss
- Natural monopolies Are they common?


- Monopolistic competition and differentiated products
- Price and output levels under monopolistic competition
- Oligopoly – When a few large firms dominate
- Models of strategic interaction – game theory
  - Nash equilibrium
  - The prisoner’s dilemma (is everywhere)


- Maximizing surplus: consumer surplus, producer surplus, or total surplus?
- Government intervention in markets: Can economics inform the political process?
- Regulating markets
- Anti-competitive activities of firms
- Measures of market structure
- Anti-trust policy


- Income, sales, and property taxes
- Horizontal and vertical tax equity
- Tax incidence: who pays?
- Efficient taxation
- Subsidies as reverse taxes
- Quotas
   - Missing or incorrect property rights and externalities
   - Taxation as a remedy
   - Regulation as a remedy
   - Environmental Regulation

   - What is a public good?
   - The role of government as a provider of public goods.
   - Common Resources

   - Adverse Selection – the lemons problem
   - The market for used cars
   - Moral Hazard – a mis-match between who pays and who benefits
   - The market for insurance
   - Principal-agent problems: aligning goals
   - Policy Problem: Health Care Reform

   - Gains from trade and the law of comparative advantage.
   - The efficiency of free trade
   - Restrictions on trade: tariffs and quotas
   - Arguments for protection
   - Is out-sourcing different from trade in goods?

21. Capital Markets – (Readings to be Assigned); Parkin, ch 18, pp. 434-435.
   - Rates of Return and Discounting
   - Economic Rent and Opportunity Cost
   - Risk and Diversification
   - Efficient Market Hypothesis
   - Options

22. Is labor Different from Other Inputs? – Parkin, Ch. 18.
   - Labor markets – demand and supply
   - Labor Demand and the Minimum Wage
   - Monopoly and Monopsony in Labor Markets
   - Labor Unions
23. Unemployment in the Great Recession – (Readings to be Assigned)
   - Defining and Measuring Unemployment
   - Incidence and Duration of Unemployment
   - Unemployment Insurance
   - Public Policy to Reduce Unemployment: Payroll Tax Holiday

24. Wages, Income, and Inequality – Parkin, ch 19.
   - Discrimination in Labor Markets
   - Measuring Inequality.
   - Changes in the Distribution of Income
   - Redistribution – Taxes and Transfers.