

# **ECONOMICS 401: Intermediate Microeconomic Theory**

Spring 2013

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Class:	ECO 401-002	ECO 401-003
	MWF 9:00 a.m.	MWF 10:00 a.m.
	B&E 213	B&E 213

Economics 401 is the second undergraduate course in microeconomic theory. It is designed to build upon principles developed in ECO 201 and provide students with a more sophisticated understanding of how market systems operate. We will study the behavior of individual decision makers: households, firms, resource owners. We will study the interaction of such individual economic units in markets. We will study the role that prices play in guiding the allocation of resources in a market economy. To reinforce students' understanding of microeconomic theory, and also to demonstrate the relevance of particular theoretical concepts, we will include numerous applications along the way.

Students are assumed to have mastered the material contained in ECO 201 and 202, principles of micro and macroeconomics. Even though calculus and statistics are not prerequisites for ECO 401, from time to time we will go through examples or work problems that presume a working knowledge of both subjects.

## **GRADING**

Your grade in the course will be determined by your performance on problem sets, three hourly exams, and a quasi-comprehensive final exam. The problem sets will count 10%, the hourly exams will count 20% each, and the final exam will count 30%.

## **HOMEWORK**

The best way to learn intermediate microeconomics is to work problems, so there will be regular problem set assignments during the semester. In total these will count 10% of your final grade in the course. If you do the math, you will see that the direct effect of homework performance on your grade is only marginal. My real intent in having you labor over problem sets is to help you to develop your analytical thinking abilities and to learn the material. Hence the primary payoff to conscientious performance of the homework will come on tests.

## **ATTENDANCE**

Attendance at the lectures is both expected and encouraged. In fact, you will find it very difficult to master the material and succeed in the course if you do not attend pretty much every class. My lectures will cover material not contained in the readings, in addition to shedding light on the reading assignments. I will keep track of class attendance

during the semester, both to better become acquainted with you as a student and to be able to determine the source of difficulty if you are struggling in the course.

### **TEXT**

We will use Edgar Browning and Mark Zupan's Microeconomics: Theory and Applications (10<sup>th</sup> edition). The assigned readings will parallel and supplement the material we cover in class. I will suggest questions and problems from the end of each chapter in the text to help you prepare for exams.

### **OFFICE HOURS**

My office is 335-M in the B&E building. I will have office hours from 10:00 until 11:00 a.m. on Tuesday and Thursday. Appointments can be made for other times.

### **WEB SITE**

The course web site is located at: <http://gatton.uky.edu/Faculty/scott/index.html>  
I will post course materials on the website, including syllabus, problem set assignments, answer keys to problem sets and tests (after you have turned them in, of course), and study questions for exams.

## **COURSE OUTLINE AND READING ASSIGNMENTS**

- I. Introduction: Ch. 1
- II. Review of Supply and Demand: Ch. 2
- III. Consumer Choice, Individual Demand, and Market Demand: Chs. 3 and 4

HOURLY EXAM #1  
(Friday, February 15)

- IV. Production: Ch. 7
- V. Costs: Ch. 8

HOURLY EXAM #2  
(Monday, March 18)

- VI. Perfect Competition: Ch. 9
- VII. Monopoly: Ch. 11 (and parts of Ch. 12 to be assigned)

HOURLY EXAM #3  
(Friday, April 12)

- VIII. Efficiency and Market Failure: Chs. 19 and 20

FINAL EXAM  
ECO 401-002: Wednesday, May 1, 8:00 a.m.  
ECO 401-003: Wednesday, May 1, 10:30 a.m.

## Additional Resources

A good general internet resource is the Khan Academy web-based course on microeconomics. It covers wide range of ECO 201 and ECO 401 topics and may provide a useful supplement to my lectures and the assigned textbook readings:

<http://www.khanacademy.org/#microeconomics>

### I. Introduction

Resource allocation under central planning: “China’s Winter of Discontent,” *WSJ*, 3/14/06.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/398959819?accountid=11836>

Resource allocation in a market system: Milton Friedman’s “Story of the Pencil.”

<http://www.youtube.com/watch?v=4ERbC7JyCfU>

Economic development across countries and over time explained in four minutes:

<http://www.youtube.com/watch?v=jbkSRLYSojo>

### II. Review of Supply and Demand

Supply and demand, a thug story: [http://www.youtube.com/watch?v=7MY7E\\_VhKMM](http://www.youtube.com/watch?v=7MY7E_VhKMM)

Demand and supply for silver, and an introduction to futures markets:

<http://www.youtube.com/watch?v=M3uNsEfgZXY>

Government intervention, unintended side effects: “Indian Fiber Weaves a Crisis,” *Wall Street Journal*, 6/23/12, p. A7.

<http://search.proquest.com/docview/1021786897/138738DE50B197BAE7A/25?accountid=11836>

### III. Consumer Choice, Individual Demand, and Market Demand

Subjective value explained:

<http://www.learnliberty.org/content/subjective-value-0>

Pretty cheesy, but the best non-graphical video I could find on preferences and indifference curves (hint: the YouTube market is begging for a creative and informative video on this topic.) <http://www.youtube.com/watch?v=ACZivdTCf9k>

Preferences, budget constraints, and consumer demand illustrated in three dimensions:

<http://www.youtube.com/watch?v=QGUc5Ptx9eI>

#### **IV. Production**

Production functions and the law of diminishing returns:

<http://www.youtube.com/watch?v=FBkftZikIdU>

Making doughnuts: specialization of capital and economies of scale.

Which of these represents an efficient combination of labor and capital?

<http://www.youtube.com/watch?v=SXEsDq7JAMI>, or

<http://www.youtube.com/watch?v=1BniXyY6nXg>

More on substituting between labor and capital:

“Amazon Adds That Robotic Touch,” *Wall Street Journal*, 3/20/12, p. B1.

<http://search.proquest.com/docview/929078080/13873A065957AB4D7/74?accountid=11836> See the robots in action at: <http://money.cnn.com/2012/03/20/technology/amazon-kiva-robots/index.htm>

#### **V. Costs**

Explicit costs, implicit costs, and economic profit—how much is a business worth?

“Small Talk,” *WSJ* 5/30/06.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/399047133?accountid=11836>

Khan academy example on accounting profit vs. economic profit:

<http://www.khanacademy.org/#microeconomics>

Per unit costs (ATC) and economies of scale in dairy farming:

USDA econometric estimates of the long run average cost curve:

[http://www.ers.usda.gov/media/430540/err47e\\_1\\_.pdf](http://www.ers.usda.gov/media/430540/err47e_1_.pdf)

Operations on a medium-sized farm:

[http://www.youtube.com/watch?v=EaGp8Ru\\_n1M](http://www.youtube.com/watch?v=EaGp8Ru_n1M)

Operations on a very large farm:

<http://www.youtube.com/watch?v=JJRy82i8e5Q>

Big or small, does it matter?

[http://www.youtube.com/watch?v=d6\\_QmtWFgdc](http://www.youtube.com/watch?v=d6_QmtWFgdc)

#### **VI. Perfect Competition**

Shutting down in the short run when price drops below min AVC:

<http://abcnews.go.com/WNT/video/wasting-strawberry-fields-10220551>

Do firms expand output in the short run as market price goes up?

“Prices Low, Oil-Service Firms Can’t Dig It,” *Wall Street Journal*, 7/20/09.

<http://search.proquest.com/docview/399120534/fulltext/13873851A1117392CE1/65?accountid=11836>

Tracking changes over time in a perfectly competitive industry:

“Alligator Farming Shows There’s a Lot to be Said for Cows,” *WSJ*, 8/2/89.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/398158016?accountid=11836>

“Economic Woes Take a Bite out of Alligator Ranching,” *WSJ*, 11/12/97.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/398605851?accountid=11836>

“A Run on Alligators Sends Designers Scrambling,” *WSJ*, 3/18/06.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/399057549?accountid=11836>

Before reading these, pick out and watch any of the dozens of YouTube videos on alligator farming.

## **VII. Monopoly**

“How a Fight Over a Board Game Monopolized an Economist’s Life,” *WSJ*, 10/20/09.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/399064057?accountid=11836>

World Monopoly Championship???

[http://www.youtube.com/movie?v=0Bw7CLvz9Vs&feature=mv\\_sr](http://www.youtube.com/movie?v=0Bw7CLvz9Vs&feature=mv_sr)

Microsoft monopoly? Or would you rather own Apple these days?

<http://www.youtube.com/watch?v=dLKVeFau6vo>

You might also check out “the Sopranos playing Monopoly” on YouTube.

How to price when you have a monopoly on some of the products your firm produces:

“Seeking Perfect Prices, CEO Tears Up the Rules,” *WSJ*, 3/27/07.

<http://ezproxy.uky.edu/login?url=http://search.proquest.com/docview/399036795?accountid=11836>

Price discrimination in practice: “More Law Schools Hagggle on Scholarships,” *Wall Street Journal*, 7/30/12, p. B4.

<http://search.proquest.com/docview/1030070943/138B00F13ED129D5D44/87?accountid=11836>

## **VIII. Efficiency and Market Failure**

Property rights, enforcement costs, and external costs:

<http://www.youtube.com/watch?v=bcEHIP-ly7Y>

Externalities and prevention of auto theft:

<http://www.youtube.com/watch?v=dmmugE5HQ3A>

For a contrarian view of economics that brings in the concept of externalities:

<http://www.youtube.com/watch?v=Se55CCdfaOA>

Definition and examples of public goods:

[http://www.youtube.com/watch?v=QZ4OCh-CG\\_0](http://www.youtube.com/watch?v=QZ4OCh-CG_0)

Are publicly provided goods necessarily public goods?

<http://www.youtube.com/watch?v=ERwkDGMB7gA>

Publicly produced goods in the North Korean economy:

[http://www.youtube.com/watch?v=ROUtps\\_IOCc](http://www.youtube.com/watch?v=ROUtps_IOCc)