

206 Microeconomic Analysis

AGSM 206

Winter Term, 1996

R. E. Marks

Lectures: Tues/Fri 10am

Ext. 271

Tutes: Mon 3:30pm

bobm@agsm

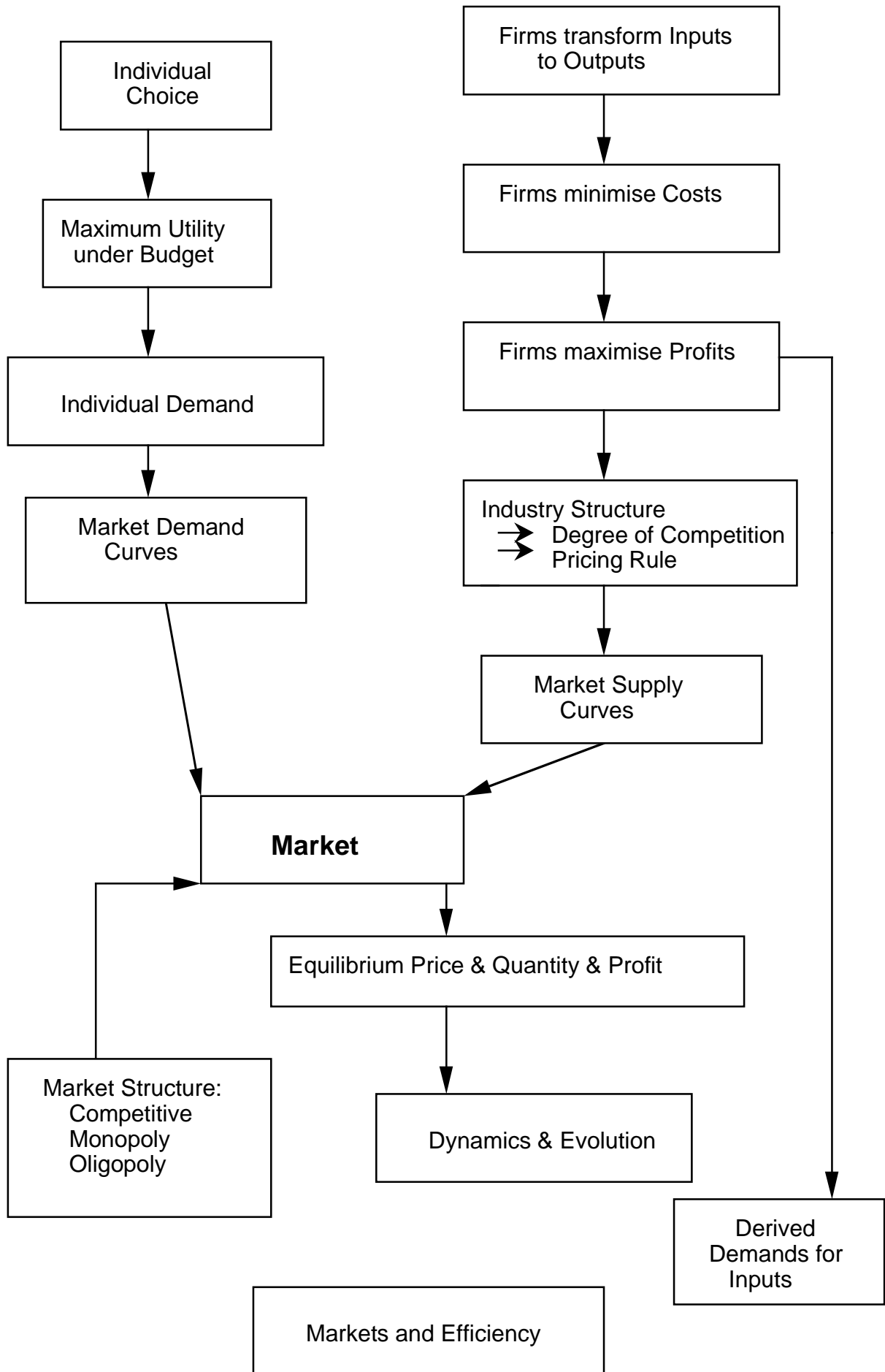
Note that this is similar to the subject Mngt 200, Markets and Prices, taught by Klaus Zauner this term. Both subjects will cover the same material, but this subject will assume first year *differential* calculus (*no* integral calculus) on which to build economics understanding. It is **not** mathematical economics.

Subject Outline:

<i>Lecture</i>	<i>Topic</i>
1.	Overview (good, demand, supply, income)
2.	(elasticity, market)
3.	Choice (preferences, utility, indifference curves)
4.	The consumer (demand curves, constrained optimisation)
5.	(income and substitution effects)
6.	(complements and substitutes)
7.	The firm (production set, scale, input substitution)
8.	(cost minimisation, supply curves, comparative statics)
9.	(profit maximisation)
10.	Competition (perfect competition)
11.	MIDTERM EXAM
12.	(pure long-run competition)
13.	Other market structures (monopoly, monopolistic competition)
14.	(competition among the few)
15.	Oligopolistic pricing and game theory
16.	Markets for inputs (rent, derived demand)
17.	Pricing strategies
18.	Normative economics (efficiency and equity)
19.	(market failure, public goods)
20.	Recapitulation
	FINAL EXAM

See the attached diagram for a schematic view of the subject.

MICROECONOMICS



Reading List:

Recommended Book. Most of the reading will come from these books. They have been ordered at the Coöp Bookshop. You are urged to buy one of:

Jack HIRSHLEIFER & Amihai GLAZER, *Price Theory and Applications*, 5th ed., Prentice-Hall, 1992.

Hal VARIAN, *Intermediate Microeconomics*, Norton, 3rd edition, 1993.

Supplementary Books. The first four are of the same level as Hirshleifer & Glazer. Pindyck & Rubinfeld is being used in Markets & Prices. Note that Salvatore includes many worked examples. The next three are generally at a higher level and are included for students who might wish to supplement the recommended text. The final one is non-mathematical in exposition.

Robert PINDYCK & Daniel RUBINFELD, *Microeconomics*, Maxwell Macmillan, 2nd. edition, 1992.

Alasdair SMITH, *A Mathematical Introduction to Economics*, Oxford: B. Blackwell, 1982.

Richard BILAS, *Microeconomic Theory*, 2nd ed, NY: McGraw-Hill, 1971.

Dominick SALVATORE, *Theory and Problems of Microeconomic Theory*, (Schaum's Outline Series), NY: McGraw-Hill, 1983.

Michael INTRILIGATOR, *Mathematical Optimization and Economic Theory*, Prentice-Hall, 1971.

Brian R. Binger & Elizabeth Hoffman, *Microeconomics with Calculus*, Scott, Foresman & Co., 1988.

Frank COWELL, *Microeconomic Principles*, Oxford: Philip Allan, 1986.

Donald McCLOSKEY, *The Applied Theory of Price*, NY: Macmillan, 2nd ed., 1985.

Readings:

The following readings correspond to the numbered lectures (or should do). You do not need to read all of them, rather generally only *one* of those marked with an asterisk (*), and those marked with a dagger (†). Package readings are indicated **Package**.

1–2. Overview.

*Hirshleifer & Glazer: Chapters 1, 2, 5.1–5.3

*Varian: Chapter 1

Paul WALLACH, The Confusing Price Index, (**Package 1**)

Smith: Chapter 1

Bilas: Chapter 2

3. Choice.

*Hirshleifer & Glazer: Chapter 3

*Varian: Chapters 3, 4, 5

Smith: Chapters 4.1–4.3

Bilas: Chapters 3 (pp. 37–43), 4 (pp. 59–64)

4–6. The consumer.

*Hirshleifer & Glazer: Chapters 4, 5

*Varian: Chapters 6, 7, 8, 9

Smith: Chapters 4.4–4.8

Bilas: Chapters 3 (pp. 43–57), 4 (pp. 64–87), 5

†Harvey LEIBENSTEIN, Bandwagon, snob, and Veblen effects in the theory of consumers' demand (**Package 2**)

†William BAUMOL, The empirical determination of demand relationships (**Package 3**)

7–9. The firm.

*Hirshleifer & Glazer: Chapter 6

*Varian: Chapters 17, 18, 19, 20, 21, 22

Smith: Chapter 2

Bilas: Chapters 6, 7

†Herbert SIMON, Theories of decision-making in economic and behavioral science (**Package 4**)

†Anna KOUTSOYIANNIS, Empirical evidence on the shape of costs (**Package 5**)

†Thoroughly modern monopoly, and J. ALEY, The theory that made Microsoft, (**Package 6,7**)

Facts or frictions, (**Package 8**)

D. McCLOSKEY, Computation outstrips analysis, (**Package 9**)

†The economics of THE FIRM, (**Package 19**)

10–12. Competition.

*Hirshleifer & Glazer: Chapter 7

*Varian: Chapter 15, 16

Smith: Chapter 3

Bilas: Chapter 8

Surely not rent controls, (**Package 26**)

†Kenneth BOULDING, Agriculture: problems of a competitive industry (**Package 10**)

Property wrongs (**Package 11**)

†Frederick BELL, The Pope and the price of fish (**Package 12**)

†R. A. RADFORD, The economic organisation of a P.O.W. camp (**Package 13**)

†R. FELS, The price of sin (**Package 14**)

†Don SCHENDEL and Pietro BALESTRA, Rational behavior and gasoline price wars (**Package 15**)

13–14. Other market structures.

*Robert MARKS, Competition and common property (**Package 15**)

*Hirshleifer & Glazer: Chapters 8–10

*Varian: Chapter 23, 24

Smith: Chapter 6

Bilas: Chapters 9, 10

†Thomas SCHELLING, Micromotives and macrobehavior (**Package 16**)

Cable television: tangled up, (**Package 27**)
Old economists never die ..., Wake up and sell the coffee, South
American wine: A tale of two clarets, (**Package 29**)
Ivan Othertaxbill; High fares, sinking ridership; Black markets,
(**Package 30**)

15. Oligopolistic pricing and game theory.
*Varian: Chapter 25
†Robert MARKS, Competition and common property (**Package 23**)
16. Markets for inputs.
*Hirshleifer & Glazer: Chapters 11, 12
Bilas: Chapter 11
17. Pricing strategies.
*Robert MARKS, Competition among the few (**Package 24**)
*Hirshleifer & Glazer: Chapter 10
*Varian: Chapter 26, 27
*James GRIFFIN & Henry STEELE, Limit pricing models
(**Package 21**)
Thomas NAGLE & Reed HOLDEN, *The Strategy and Tactics of Pricing: A Guide to Profitable Decision Making*, Prentice Hall, 1995. Chapters 1–3 (On reserve)
†Selling software: priceless, (**Package 28**)
Robert MARKS, David MIDGLEY, & Lee COOPER, Breeding competitive strategies, Australian Graduate School of Management Working Paper 95–001 (On reserve)
The economics of ski lifts (**Package 20**)
- 18–19. Normative economics.
*Hirshleifer & Glazer: Chapter 15
*Varian: Chapters 14, 28, 29, 30, 31
†The tyranny of triangles, (**Package 25**)
Smith: Chapter 5
Bilas: Chapter 12
†James KOCH and Stanley GRUPP, The economics of drug control policies (**Package 17**)
C. T. NISBET and F. VAKIL, Some measures of price and expenditure elasticities of demand for marijuana among UCLA students (**Package 18**)
The regulatory experiment, (**Package 31**)
Incredible, (**Package 32**)

Further readings:

Richard DAWKINS, God's utility function (**Package 22**)
Great expectations, and rational too, and Economists in academia: Nobel savages (**Package 33, 34**)
Economics in the News. This is a new service on the WWW, at <http://www.wwnorton.com/wsj/welcome.htm>. Articles from the *Wall Street Journal* have been excerpted for use by students and lecturers in economics classes. From time to time we'll discuss one in class. Try connecting.

Assessment

Final exam (3-hour)	50%
Mid-term exam (80-minute, in-class)	25%
Five take-home assignments	25%
Total	100%

Notes:

1. *You can't get fit by reading about it or watching someone else exercise* — Jane Fonda.

That's right. Microeconomics as I teach it is a hands-on subject, not a discussion subject. Doing micro is the best way to learn how to, and so I'll set six set of homework exercises. Don't spend more than three hours on each set — I'll be available for answering questions on past and perhaps future assignments in my room (Room 251), and on Mondays at 3:30 there will be a tutorial to revisit assignments and lecture topics.

2. I'll hand out six assignments, but only count the five best results for each student. Attempt all six assignments.
3. I shall discuss the solutions each week in tutorial. Marks will be deducted for late assignments. As the solutions to the assignments will be discussed in tutorial, assignments handed in late will not be accepted.
4. I shall allow you to discuss solutions with other students, but **any copying will be penalised**.
5. I'll undertake to get each marked assignment back to you before the next week's assignment is due.