ECONOMICS 105: PRINCIPLES OF ECONOMICS
(Winter 2001)

Instructor: Ahmed M. Hussen
Office: Dewing 306A
Phone: 337-7025; **e-mail address:** hussen@kzoo.edu
Office Hours:

COURSE DESCRIPTION:

The objective of the course is to introduce students to the basic principles of microeconomics. Broadly, microeconomics deals with the study of how, in the presence of resource *scaricty*, consumers, workers, and business firms make decisions--making *choices* among several competing alternative course of actions. This will be done assuming the *market system* as the dominant institutional mechanism for the allocation of societal resources. In this course we will also attempt to study how *external factors* such as such government policies and the nature of market structures may affect the allocation and distribution of societal resources. Thus, microeconomics involves with the study of consumers, workers, and producers behaviors, market structures and their effect on resource allocations and distributions, and public policy measures (such as taxes an subsidies) intended to alter the economic behavior of consumers and producers.

Emphasis will be placed in developing the *logic of economic thinking* (how choices or decisions in the presence of resource scarcity are made systematically) through extensive use of examples and the development of basic theories. This course assumes no previous knowledge of economics.

REQUIRED TEXT:

Mankiw, Gregory, N., *Principles of Economics*, the Dryden Press, 2001.

Additional readings will be placed on **reserve** in the library.

COURSE OUTLINE:

Part I: Introduction to Basic Economic Principles and Methods of Analysis

A. Basic Principles (Chapters 1, pp. 3-11)

1. What is economics?

2. The four principles individual decision making
3. The three principles of concerning economic interactions

B. Methods of Analysis: Economist's way of thinking (Chapter 2, pp. 17-32)

1. Is economics a science?
2. Microeconomics as a scientific study
3. Scarcity and choice: The production possibility frontier
4. The two sub-fields of economics: microeconomics and macroeconomics
5. Positive versus normative economic analysis
6. Marginalism and marginal analysis

C. The Gains From Trade: Simple applications of basic economic principles and methods of Analyses (Chapter 3, pp. 45-55)

1. Specialization and trade
2. The principle of comparative advantage
3. Opportunity cost and comparative advantage
4. Why trade is not a zero sum game: Comparative advantage and trade

Part II: The Formation of Product Prices in a Competitive Market; Elasticity and its Various Applications; and the Effects of Government Policies on Market Equilibrium Price and quantity

A. *The Simple Analytic of Market Demand and Supply* (Chapters 4, pp. 61-84)

1. Basic characteristics of a competitive market
2. Determinants of demand and supply
3. Shifts in the demand and supply curves
4. Market equilibrium
5. Basics of demand & supply analysis: Static equilibrium analysis
6. Basics of demand & supply analysis: Comparative static equilibrium analysis

B. The Elasticity of Demand and Supply (Chapter 5, pp. 89-108)

1. Definition and computational formula
2. The price elasticity of demand and its determinants
3. Total revenue and price elasticity of demand
4. The income elasticity of demand
5. Cross-price elasticity of demand

6. The price elasticity of supply: determinants and computational formula
7. Applications of supply, demand and elasticity.

C. How Government Policies Affects Market Equilibrium Price and Quantity (Chap. 6, 111-27)

1. Price ceiling and price floor
2. Taxes
3. Elasticity and the incidence of taxes

Part III: Evaluating the Performance of the Competitive Market

A. The Competitive Market the Best of All Worlds! (Chapter 7, pp. 133-149*)*

1. Welfare economics
2. Demand as a measure of consumer's willingness to pay
3. The concept of consumers' surplus
4. Supply as a measure of producers' opportunity cost to provide goods and services
5. Supply as a measure of producers' willingness to sell goods and services
6. The concept of producers' surplus
7. The efficiency of the competitive market equilibrium outcome

B. The Welfare Loss from Government Taxation (Chapter 8, pp. 155-166)

1. How a tax affects market equilibrium price and quantity
2. Deadweight loss of taxes
3. The determinants of the deadweight loss

Part IV. The Production and Cost Functions of the Firm (Chapter 13, pp.263-278)

1. Basic institutional assumptions
2. Economic versus accounting profit
3. Short-run versus long-run decisions
4. The production function
5. The law of diminishing marginal product
6. The conventional short-run cost functions and their properties
7. Long-run cost function: Economies and diseconomies of scale
8. The relationships between short-run and long-run cost functions.

Part V: Price and Output Determination Under Alternative Market Structures
(Chapters 14, 15, and 16)

1. Pricing and Output Decisions in a competitive market setting
2. Pricing and output decisions in pure monopoly markets
3. Price and output decisions in a monopolistically competitive industry
4. Price and output decisions in an oligopolistic industry
5. Public policy issue: When should government regulate monopoly?

Part VI: Topics in Microeconomics: Externalities and the Distribution of Income
(Chapters 10 and 20)

1. Externalities and market failure
2. The economics of pollution
3. Income inequality and its economic measurements and implications

GRADING:

Two mid-term exams	60%
Final exams	30%
Assignments and quizzes	10%

IMPORTANT REMINDER:

Exams must be taken at the times designed except in the case of illness with a physician's excuse. No late assignment will be accepted. The final exam will be comprehensive. Violation of an academic regulation could have a very serious consequence ranging from a reduction of grade on a specific project to failure in a course. In this class, at no time and under no circumstance is academic dishonesty tolerated.