

ECON 271: Intermediate Microeconomic Theory

Semester 1, 2023

Prerequisites:

BSNS104 or BSNS113, one of FINC 102, FINQ 102, MATH 130, MATH 140

Lecture times:

- Monday Noon-12.50pm **Room:** TBA
- Wednesday 3.00-3.50pm **Room:** TBA
- Thursday 11.00-11.50am **Room:** TBA

Tutorial time:

- Thursday Noon-12.50pm **Room:** TBA

Lecturers:

Murat Genç

- Rm: 5.24 OBS Ph: 479 8644 E: murat.genc@otago.ac.nz
- Office Hours: Tuesday, 11:30am – 1pm; Wednesday 4 – 5pm; any other time Murat is around (including 9 – 11pm most evenings)

Neha Agarwal

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- Office Hours: TBA

Course description:

This is *the core theory* paper in economics. The paper is designed to formalise and extend the basic concepts of microeconomics that you were introduced to in your introductory economics papers. You will have seen many of the topics before – consumer theory, producer theory, exchange, monopoly and externalities – but typically in an informal setting. Other topics may be less familiar. We will consider examples and applications of micro theory. The tools of microeconomics are useful for a wide variety of problems – most of what you see in the newspapers or run into in daily life – and examples will be used to give you a sense of the range.

ECON271 is recommended for economics majors who want to develop a deeper understanding of microeconomic models. It requires a working knowledge of basic algebra and calculus. It is also one of the required papers that students intending to proceed to postgraduate programmes (Honours, MEcon, MBus, PGDip) in economics must include in their Bachelor's degree programme.

The analysis will be technical in nature, involving calculus and optimisation. While this formalisation is essential for a modern treatment of microeconomics, the lectures will also present graphical techniques, especially for the building of intuition. If you are uncomfortable about your background in algebra or calculus, please do some reviewing or get external help now.

By the end of the paper you should have gained an understanding of the techniques of analysis appropriate to intermediate microeconomics and have enhanced your ability to reason logically and accurately.

You will also be able to:

- Translate economic ideas into equations or numerical examples.
- Calculate quantitative answers to economic problems.
- Recognise that economic arguments are simpler with a little maths.
- Appreciate how economic techniques can offer insights into various economic issues.

Workload:

This is an 18-point semester paper. Under the University's points conventions, an 18-point paper corresponds approximately to an average workload of 12 hours per week (including contact hours), or roughly 180 hours in total over a 15-week period (including the end-of-semester exam period).

Tutorials:

The tutorial programme complements the material covered in lectures and the textbook. It contains questions that you should do over the course of the semester. Tutorials take place weekly (on Thursdays, as mentioned earlier) and begin in **week 2**.

Tutorial questions will be distributed periodically during the semester. You should attempt the questions prior to each tutorial. Written answers to tutorial questions will be available at the end of each tutorial and posted on Blackboard, so please do not come to tutorials simply to write down the answers. Instead, you should be prepared to answer (and ask) questions during the tutorial.

Understanding the relevant course material and attempting the tutorial questions prior to attending class is vital to your success in the class tests and final exam.

Textbook and course materials:

There is a single textbook for the paper:

Thomas J. Nechyba, **Microeconomics: An Intuitive Approach with Calculus**, 2nd Edition (Cengage Learning, 2017). Note, the 1st Edition is probably fine too (e.g. if you can find a cheap copy ...)

The lectures will follow the textbook as indicated in the schedule of topics below. Attending lectures and taking good notes is very important. You will also find it extremely helpful if you use the accompanying (web-based) **Study Guide** that contains answers to *all* within-chapter-exercises. Doing the within-chapter exercises significantly improves students' performance on the tests and exams.

The textbook contains many end-of-chapter exercises. Working through these problems will greatly aid your understanding.

Some course materials will be posted on Blackboard.

Aplia/Mindtap:

MindTap, Cengage's digital learning environment, for the textbook is made available to you free of charge. (The Department of Economics has paid for this.) MindTap has some invaluable features such as Animated Video Graph Presentations, interactive Graph Builder exhibits, narrated (by the author) videos and interactive assessments. It also gives you access to the **electronic version of the textbook**.

During this course, you will need to complete an **assignment, called Aplia Homework**, in MindTap **every week**. The deadline for each assignment is 11:59pm on Sunday of the week.

Access to MindTap is via Blackboard. You go to 271 Homepage on Blackboard and click on Weblinks. Then click on MindTap on the page you see. You need to create an account using your real name and student email address the first time you access MindTap. You cannot have multiple accounts, so please make sure you don't make any mistakes.

Problem solving:

The assessment is based on **problem solving**. In many papers you have done, you are likely to have had a choice of questions, involving essays. A natural strategy to deal with this is to spot questions and to concentrate on only a few topics on the syllabus. This strategy is likely to be **fatal** (academically speaking!) in this paper. If you 'question spot' you will come to the class tests and final examination poorly prepared. It is a key property of problem-solving assessments that if you do not work properly **you will be found out!** You can't bluff your way to a satisfactory result.

The crucial test of your understanding is solving problems. Because you will only develop a firm grasp of the subject matter by doing problems, you should do as many problems as you can. The more problems you do the easier you will find the tests and the final examination. **This does not mean, however, that you should memorise answers.** As Thomas Nechyba (the textbook's author) says, 'the modern world has few rewards for people who are really good at memorising but offers much to those who can conceptualise ideas and integrate them with one another'. The aim is to think clearly in general – without relying on memorisation.

Hal Varian, the author of another very good microeconomics textbook (used in previous years), comments 'students often tell us "I read the textbook and I thought I understood it, but when I try to do the problems, I don't know where to start".' If you get stuck don't worry. You will not be alone. The distinction Varian has here is between understanding in the sense of following what someone else is doing (reading the book) and understanding in the sense of being able to do the work on your own (solving problems). You should aim at the latter. (*Why?*)

Economics is **not** some kind of irrelevant intellectual gymnastics. It is a **method** of thinking about the world around us – an aid to thought. But thinking is what we ourselves do. No one else will do your thinking for you. Problem solving in this paper is practise in using economic theory to help you think for yourself.

How to work:

- Attend lectures and tutorials. Experience shows that there is a strong correlation between poor attendance and failure in this paper.
- Read thoroughly the textbook (several times!). **You do not need to read anything else.** Do not skip the **Introductions** (to the Parts as well as the Chapters) and the **Conclusions** in each chapter. You need to know the material well and do not think your work is finished if you can follow what Nechyba is saying. **You should read each chapter carefully a number of times** and you should do this steadily over the semester. Do not leave the serious reading of the textbook until it is too late. Make sure you attempt the within-chapter exercises as you read. (Remember that the answers are in the accompanying (web-based) **Study Guide**.)
- The slide shows used in lectures will be available on Blackboard. Review them at your leisure to make sure that you know everything presented in the lectures.
- Visit the Mindtap website to study.
- After a few readings attempt the questions at the end of each chapter. Do as many problems as you can. The questions we cover in the tutorials should be regarded as an absolute minimum.
- Work steadily over the semester. Don't forget that later work in the paper builds on earlier work. You will not have much time to catch up if you fall behind. In any case, intensive work at the end is never a substitute for regular effort throughout the paper.
- Do not get discouraged if you get stuck on a problem. This is to be expected. Problems will become easier if you stick at it. Consult the relevant part of the textbook or your lecture notes. You will see if you read the material properly how to solve most of the problems you meet. If you really are stuck ask for help! Your lecturer is more than happy to help you out. Do not hesitate to visit him in his offices or email him with your questions.
- Don't forget what Confucius said about 2,500 years ago: "I hear and I forget. I see and I remember. I do and I understand". The real test of how well you understand is to do problems on your own. The tests and the exam are designed to see how much you understand, not to see how much you remember.

Assessment:

The paper is assessed by a combination of continuous assessment and a final examination.

- Weekly Aplia Assignments 24% (2% each, 12 in total) with **PLUSSAGE**
- Two class tests 20% (10% for each test) no plussage
- Final examination 56-80% depending on Aplia assignments

The class tests will take place during the normal lecture slots: on **Wednesday 10 April** (week 6) and **Thursday 16 May** (week 11).

The **class tests** are vital preparation for the final examination, which will include questions of a similar nature.

The class tests are an integral part of the assessment procedure. If you miss a test without good reason you will be awarded a mark of zero (a test will not be re-arranged if you miss one). In the case of illness a Health Declaration Form will normally be required to be filled out. (The form is available at www.otago.ac.nz/studenthealth/otago508002.pdf.)

If you consider your performance in the end-of semester examination to be seriously impaired, or if you are too ill to sit an examination, you can apply for **Special Consideration**. To do this you will need to obtain an application form from the University Information Centre or Student Health. Please note that applications for Special Consideration must be made within five calendar days from the date of the last examination for which the application applies and must be accompanied by supporting documentation, such as a medical certificate.

Academic Integrity:

Academic integrity means being honest in your studying and assessments. It is the basis for ethical decision-making and behaviour in an academic context. Academic integrity is informed by the values of honesty, trust, responsibility, fairness, respect and courage. Students are expected to be aware of, and act in accordance with, the University's Academic Integrity Policy.

Academic Misconduct, such as plagiarism or cheating, is a breach of Academic Integrity and is taken very seriously by the University. Types of misconduct include plagiarism, copying, unauthorised collaboration, taking unauthorised material into a test or exam, impersonation, and assisting someone else's misconduct. A more extensive list of the types of academic misconduct and associated processes and penalties is available in the University's Student Academic Misconduct Procedures.

It is your responsibility to be aware of and use acceptable academic practices when completing your assessments. To access the information in the Academic Integrity Policy and learn more, please visit the University's Academic Integrity website at www.otago.ac.nz/study/academicintegrity or ask at the Student Learning Centre or Library. If you have any questions, ask your lecturer. Further information can be found via the links available from the link above.

Topics and Readings:

The following is a tentative course outline, depending on how fast/slow we go.

Part 1: Utility-Maximising Choice: Consumers, Workers, and Savers

1. A Consumer's Economic Circumstances

Ch 2

2. Economic Circumstances in Labour and Financial Markets	Ch 3
3. Tastes and Indifference Curves	Ch 4
4. Different Types of Tastes	Ch 5
5. Doing the “Best” We Can	Ch 6
6. Income and Substitution Effects in Consumer Goods Markets	Ch 7
7. Wealth and Substitution Effects in Labour and Capital Markets	Ch 8
8. Demand for Goods and Supply of Labour and Capital	Ch 9
9. Consumer Surplus and Deadweight Loss	Ch 10
Part 2: Profit-Maximising Choice: Producers (or “Firms”)	
10. One Input and One Output: A Short-Run Producer Model	Ch 11
11. Production with Multiple Inputs	Ch 12
12. Production Decisions in the Short and Long Run	Ch 13
Part 3: Competitive Markets and the “Invisible Hand”	
13. Competitive Market Equilibrium	Ch 14
14. The Invisible Hand and the First Welfare Theorem	Ch 15
Part 4: Distortions of the “Invisible Hand” in Competitive Markets	
15. Elasticities, Price-Distorting Policies, and Non-Price Rationing	Ch 18
16. Externalities in Competitive Markets	Ch 21
17. Distortionary Taxes and Subsidies	Ch 19
18. Monopoly	Ch 23