

**BOSTON COLLEGE**  
CHESTNUT HILL, MASSACHUSETTS 02167

Principles of Microeconomics  
EC131.09/10 - Fall 1997

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Class time: MWF 2:00 & 3:00

Office hours: M/W 4:00-5:00  
or by appointment

Course Objective: To become familiar with the foundations of Microeconomics. Economics has its own set of tools and language. Emphasis will be placed on expressing ideas in a logical and concise manner, consistent with the language of economics. Graphs will often be used to convey these principles.

Text:

REQUIRED - Tresch, Richard, Principles of Economics, West Publishing Company  
OPTIONAL - Study Guide to Accompany Principles of Economics. I will not be assigning any problems from this book. It is strictly for your own use. Be forewarned that many of the answers in the back of the book are incorrect.

Course Requirements:

Breakdown of grades

|           | <u>% of grade</u> |
|-----------|-------------------|
| Midterm 1 | 25%               |
| Midterm 2 | 25%               |
| Final     | 50%               |

There will also be periodic homework assignments which I will collect and check. Homework will influence your grade in borderline cases. If I do not have your homework in hand when I leave for the day, I will record a zero for that particular homework. A missed exam will receive a grade of zero. Makeup exams will not be offered. Since I am notifying now of when they will be given, I expect you to plan accordingly.

The course will closely follow the text. I strongly recommend keeping up with the reading in the text and reviewing your notes on a weekly if not daily basis. You are permitted (and encouraged) to work together on the problem sets. If you work in a group of three or less, you may hand in a single homework. Be sure to include all names. Class participation is certainly encouraged.

Academic Integrity: You are expected to do your own work on quizzes and exams. Any violations of this standard will be dealt with as detailed in the BC Student Handbook.

Schedule

|        |             |
|--------|-------------|
| W 9/3  | First class |
| M 10/6 | Midterm 1   |
| M 11/3 | Midterm 2   |
| M 12/8 | Last class  |

## Reading List

### I. Introduction

- A. Math Review
- B. Chapter 1 - The First Principles of Economics
  - 1 - What is economics? (p. 4-5)
  - 2 - The economic problem (p. 5-6)
  - 3 - Key players (p. 6-10)
  - 4 - Circular flow (p. 77-79 in chapter 4)
  - 5 - Interdependence and opportunity costs (p. 10-13)
  - 6 - Exchange (p. 13-14)
- C. Chapter 2 - Solving the Economic Problem
  - 1- Economists as model builders (p. 26-29)
  - 2 - Efficiency and equity (p. 18-26)
  - 3 - Microeconomics and Macroeconomics (p. 31-33)
  - 4 - Normative and positive analysis (p. 29-31)
- D. Chapter 3 - Society's Economic Problem
  - 1 - Society's Economic Problem and (p. 38-49)
    - objectives
    - alternatives
    - constraints - production possibilities frontier
  - 2 - Long run growth (p. 49-57)
  - 3 - Economic systems (p. 57-64)
- E. Chapter 4 - Markets, Prices and the US Economy
  - 1 - Markets (p. 70-75)
  - 2 - Trade and competitive advantage (p. 75-77)
  - 3 - The U.S. economy (p. 80-91)

### II. Competitive Markets - The Laws of Supply and Demand

- A. Chapter 5 - Demand and Elasticity
  - 1 - Individual demand (p. 100-104)
    - Remember what the consumer's economic problem is
    - Demand can be represented by a schedule, graph or equation
    - Substitution and Income Effects
  - 2 - Market demand (p. 104-109)
    - Sum of individual demand curves, schedules or equations
    - Difference between a change in demand (a.k.a. shift in demand) and a change in quantity demanded
    - Substitutes and Complements
  - 3 - Elasticity of demand (p. 109-122)
    - (Own) price elasticity of demand
      - It is a relative measure rather than an absolute one
      - The formula
      - How it relates to total revenue
      - Determinants of elasticity
    - Income elasticity of demand
    - Cross price elasticity of demand

- B. Chapter 6 - Supply and Marginal Cost
  - 1 - The firm's economic problem (p. 130)
  - 2 - Supply (p. 131-145)
    - What is it?
    - Why does the Law of Supply hold?
  - 3 - Market Supply (p. 145-147)
    - Sum of the individual supply curves, schedules or equations
    - Difference between a change in supply (a.k.a. shift in supply) and a change in quantity supplied
  - 4 - Elasticity of Supply (p. 147-150)
    - Formula
    - Determinants of elasticity
  
- C. Chapter 7 - Market Equilibrium
  - 1 - Laws of Supply and Demand (p. 156-168)
    - Market equilibrium, excess supply and demand
    - Why is equilibrium stable?
    - How do shifts in supply and/or demand affect equilibrium price and quantity?
    - How are the changes in  $P_e$  and  $Q_e$  related to elasticity?
  - 2 - Allocation of Resources (p. 168-177)
    - The supply curve is the marginal cost curve
    - The demand curve represents marginal value
    - Equilibrium price represents the marginal value of the last unit consumed and the marginal cost of the last unit produced
    - Total market value, total value to consumers, total cost, consumer surplus, producer surplus, net value - also representing these measures graphically
    - Efficient allocation of resources at the equilibrium point
  
- D. Chapter 8 - Applications of Supply and Demand
  - 1. Agriculture (p. 182-190)
  - 2. Nonclearing markets (p. 190-193)
  - 3. Unfair prices (p. 193-202)
    - Price ceiling and floor, excess demand and supply
    - Rent control
    - Agricultural subsidies
  - 4. The economic effects of taxation (p. 202-208)
  
- E. Chapter 9 - Supply and Demand in Competitive Labor Markets
  - 1. Supply of labor (p. 213-219)
    - Relation to the consumer's economic problem
    - Income and substitution effects again
  - 2. Demand for labor (p. 219-223)
  - 3. Labor market equilibrium (p. 223-224)
  - 4. The Federal Minimum Wage (p. 234-237)

### III. Behavior of Business Firms in a Market Economy

- A. Chapter 11 - The Firm's How Problem and the Total Cost of Production
  - 1. Total Cost of Production (p. 278-282)
  - 2. Shape of LR and SR curves (p. 294-299)

3. TC curve shows maximum output for a given cost and minimum cost for a given output (p. 286-288)
4. Least Cost Production (288-294, 299-300)
  - The firm's HOW problem
  - Least cost production rule

B. Chapter 13 - Perfect Competition

1. Classification of product markets (p. 338-343)
2. Review of Perfect Competition (p. 346-349)
3. Profit and loss, when should a firm not produce at all (p. 349-352)
4. The average curves and relation to marginal cost (p. 352-356)
5. Short run equilibrium (p. 356-362)
6. Long Run (p. 362-369)
7. Normative Properties of Perfect Competition (p. 374-378)

C. Chapter 14 - Pure Monopoly

1. Profit Maximization under Pure Monopoly (p. 390-399)
  - Monopoly faces a downward sloping D curve (not like a PC firm) - so marginal revenue does not equal price
  - Maximizing profit
2. Evaluation of Monopoly (p. 399-406)

D. Chapter 15 - Softening Competition (p. 422-439)

1. Cooperative Behavior (p. 422-427)
2. Monopolistic Competition (p. 427-435)
3. Evaluation of Monopolistic Competition (p. 435-439)