

# EC 131 PRINCIPLES OF MICROECONOMICS

## GENERAL INFORMATION

Lecturer: Oriana Bandiera  
 Class time & place: EC131 01 MWF 1 Fulton 453  
                           EC131 02 MWF 2 Fulton 453  
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## COURSE DESCRIPTION

This course will show how consumers, firms and workers behave and interact in a market economy. The course will provide the basic tools for economic analysis, including principles of game theory and issues of asymmetric information.

## COURSE STRUCTURE

The course is divided into six broad topics as described below. For each topic there will be about 4-5 lectures and one discussion session. For each topic there will be a problem set (not graded) that will be solved in class during the discussion session. In order to ensure full understanding of the material it is strongly suggested that you solve the problem set before the review session. There will be a "midterm" examination on 3/12 and a final examination. The midterm is about the first 3 topics; the final is about all the material covered during the course (all six topics). The midterm and final grades count as 40% and 60% of the total grade, respectively. The textbook is R. Tresch "Principles of Microeconomics" West (1994)—chapters indicated below.

## LECTURES STRUCTURE (schedule in parenthesis)

**TOPIC 1 (1/20 to 2/8) INTRODUCTION- THE LAWS OF SUPPLY AND DEMAND-EQUILIBRIUM IN COMPETITIVE MARKETS.** The law of demand; determinants of demand; the demand curve; elasticity. The law of supply, determinants of supply; the supply curve for a competitive firm; elasticity. Market equilibrium. Are competitive markets efficient? (Tresch chapters 5, 6, 7,8)

**TOPIC 2 (2/10 to 2/19) BEHIND DEMAND AND SUPPLY: THE THEORY OF CONSUMER CHOICE AND FIRMS' COST STRUCTURE** Consumers' preferences; utility; indifference curves; budget constraints. The total cost curves, marginal cost and marginal product. (Tresch chapters 10 (including appendix) and 11)

**TOPIC 3 (2/22 to 3/10) THE STRUCTURE OF PRODUCT MARKETS. PART I: PERFECT COMPETITION AND MONOPOLY.** Average cost curves; profit maximisation in competitive markets. Evaluation of competitive markets. Average cost curves and profit maximisation in monopolistic markets. Evaluation of monopoly. Price discrimination. (Tresch chapters 13 and 14)

\*\*\* Midterm Review (March 11 time TBA) & Midterm (March 12)\*\*\*

**TOPIC 4 (3/15 to 3/26) PRINCIPLES OF GAME THEORY. THE STRUCTURE OF PRODUCT MARKETS PART II: MONOPOLISTIC COMPETITION AND OLIGOPOLY.** Elements of a game, how to solve a static game of complete information: dominant strategies, Nash equilibrium. Can competitive firms cooperate? Cartel formation and related issues. Profit maximisation in monopolistically competitive markets. Evaluation of monopolistic competition. Profit maximisation in oligopolistic markets, strategic behaviour of oligopolies. Evaluation of oligopoly. Public policy: anti-trust legislation. (class notes; Tresch chapters 15, 16 and 17)

**TOPIC 5 (3/29 to 4/16) THE LABOUR MARKET IN THE U.S. INVESTMENT DECISIONS BY FIRMS. THE CAPITAL MARKET. INCOME DISTRIBUTION IN THE U.S.** Supply and demand in competitive labour markets. The minimum wage. Four facts about the U.S. labour market. Issues of discrimination. Labour Unions. Education and earnings. Investment analysis: discounting, risk, and tax considerations. The market for capital: interest rates, supply of savings and demand for investment. Income distribution in the U.S. The Lorenz curve and the Gini coefficient. (Tresch chapters 9,18,19,12,20,22)

**TOPIC 6 (4/21 to 5/3) THE GOVERNMENT IN THE U.S. ECONOMY. INEQUALITY, POVERTY AND DISTRIBUTIONAL POLICIES. MARKET FAILURES AND ALLOCATIONAL POLICIES. GOVERNMENT REVENUES AND THE PRINCIPLES**

OF TAXATION. Why does the government intervene in the economy? Distributional problems: government programmes to fight poverty. Allocational problems: government programmes to correct market failures. Major market failures: public goods, externality and markets with asymmetric information. Taxes in the U.S. Taxes in theory: the properties of a good tax system. (Tresch chapters 22,23 and 24)