

Economics 113 Intermediate Microeconomics I

Winter 2009
TTh 1:45-3:30 p.m.
Lucas Hall 307

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Office hours: Tues. and Thurs. 3:30 - 4:30 p.m., and by appointment

1. Description

ECON 113 and 114 constitute a two-course sequence in intermediate microeconomics. These courses are designed to provide economics majors and other interested students with a deep understanding of microeconomic theory and its applications. ECON 113 emphasizes the theory of rational individual choice. After learning the basics of the rational choice model, we will apply it to the evaluation of alternative tax and transfer policies, biases in the consumer price index, saving and borrowing behavior, economic efficiency and equity, decision-making under uncertainty and asymmetric information, and insurance markets. We will also explore critiques of the rational choice model and alternative approaches offered by behavioral economics: models of individual behavior that allow for more realistic human psychology, including bounded rationality and non-selfish behavior.

In the follow-up course, ECON 114, the emphasis is on the supply side of the market: production and pricing decisions by profit-maximizing business firms in competitive and non-competitive markets (including monopoly, monopolistic competition, and oligopoly). 114 also examines issues in public economics, such as externalities and public goods, and the behavior of governments.

Compared with other economics courses you have taken, ECON 113 and 114 are likely to be more abstract and mathematical, and therefore more challenging for many students. The point is not “math for math’s sake,” but the development and application of rigorous conceptual tools for modeling economic behavior. In the words of Dani Rodrik, an influential development economist, “What matters most is a certain habit of mind— of being able and willing to break a complicated problem into its constituent parts and then put it back together.” My goal is to help you relate the math and diagrams to economic intuition. Problem solving (homework) is essential to this process. I also encourage you to maintain a healthy skepticism: by questioning whether microeconomic models are reasonable approximations of reality, you will attain a richer understanding of the models themselves and the (often debatable) assumptions upon which they are built.

2. What I assume you already know

The official prerequisites for this course are **ECON 1 and 2, and MATH 11 or 30.**

It is essential that you have mastered the core concepts of microeconomics from your earlier courses. These include supply and demand analysis and its applications, elasticity, opportunity cost, and profit maximization ($MC = MR$). In this course we also make extensive use of basic algebra and calculus (derivatives). We will spend the first week reviewing supply and demand and some of the math tools.

3. Readings

Please read all assigned material before class. The textbook (required) is available for purchase at the bookstore: Robert Frank, *Microeconomics and Behavior* (7th ed.). ***This is also the textbook for ECON 114.*** So if you plan to take ECON 114 (and you must if you are an Econ major), you should hang onto your book. The text may be supplemented with additional short readings from time to time. Handouts and other materials will be posted to the course web site on Angel.

4. Homework

Homework will consist of weekly problem sets. These will not be collected or graded, but you should take them very seriously: Solving problems is essential to understanding the course material and doing well on exams. *Exam questions will often closely resemble homework problems!* I will hand out solutions and go over some problems in class. I encourage you to discuss the problems with other students, but first try your best to work them out by yourself.

5. Class time

Class time will be devoted to lecture, discussion, and in-class problem solving, except for the scheduled in-class midterms. Feel free to interrupt me with questions as they arise during lecture. Your active participation is a “public good” that benefits everyone in the class. Please turn off your phone. I reserve the right to ask people to put away their laptops if they appear to be a distraction; given the large number of diagrams, you will probably find that pencil and paper work better for note taking anyway. There will be a 5-minute break around the middle of the class period. Classes will be recorded using Accordent, with the recordings posted to the Angel course site. You can use these recordings to review the lectures and check your notes.

6. Exams and grading

Your course grade will be based on two midterms (30% each) and a final exam (40%). I assign the course grade using a *single weighted average of all the exams*. The final exam will be comprehensive (cumulative). All exams emphasize problem solving. The dates of the exams are as follows:

Midterm #1	Thurs., Jan. 29
Midterm #2	Thurs., Feb. 19
Final	Tues., March 17, 1:30 p.m.

7. Academic integrity

You must do *your own work* on exams. Cheating will result in failing the course, and will be reported to the Dean and to the Office of Student Life.

8. Accommodations for disability

To request academic accommodations for a disability, students must contact Disabilities Resources located on the second floor of Benson. Phone numbers are (408) 554-4111; TTY (408) 554-5445. Students must register and provide documentation of a disability to Disabilities Resources prior to receiving academic accommodations.

Schedule (subject to revision)

<i>Date</i>	<i>Topics and readings*</i>
Jan. 6, 8	Supply and demand review <i>Reading:</i> ch. 1-2
Jan. 13, 15	Budget constraints and consumer preferences <i>Reading:</i> ch. 3
Jan. 20	Utility maximization <i>Reading:</i> ch. 3 appendix; “Notes on utility and consumer choice” handout
Jan. 22, 27	Individual and market demand; effects of price and income changes <i>Reading:</i> ch. 4
Jan. 29	<i>Midterm #1</i>
Feb. 3, 5	Policy applications of rational choice theory <i>Reading:</i> ch. 5
Feb. 10	Buying and selling; intertemporal choice <i>Reading:</i> ch. 5
Feb. 12, 17	Exchange, efficiency, and equity <i>Reading:</i> ch. 18W-2 (online)
Feb. 19	<i>Midterm #2</i>
Feb. 24, 26	Uncertainty and insurance; asymmetric information <i>Reading:</i> ch. 6
Mar. 3, 5	Bounded rationality <i>Reading:</i> ch. 8
Mar. 10, 12	Deviations from self-interested behavior; review <i>Reading:</i> ch. 7
Mar. 17, 1:30 p.m.	<i>Final exam</i>

* All readings refer to the textbook, Robert Frank, *Microeconomics and Behavior* (7th ed.). Additional short readings may be assigned from time to time.