

Economics - I (Semester 2)

Microeconomics

Course Introduction

This course will provide you with a basic understanding of the principles of microeconomics. At its core, the study of economics deals with the choices and decisions we make to manage the scarce resources available to us. Microeconomics is the branch of economics that pertains to decisions made at the individual level, such as the choices individual consumers and companies make after evaluating resources, costs, and tradeoffs.

Scope and Objective

When we talk about the economy, we refer to the marketplace or economic system where our choices interact with one another. In this course, we discuss how and why we make economic decisions, and how our choices affect the economy. Think about each of the following units as a building block, where the concepts you learn will enable you to understand the material you discover in the next unit. By the end of this course, you will have a strong grasp on the major issues macroeconomists face, including: consumer and producer behavior, the nature of supply and demand, the different kinds of markets and how they function, and the welfare outcomes of consumers and producers. We also explore how these formal principles and concepts apply to real-world issues. The scope and emphasis of this course goes beyond a general understanding of microeconomics to incorporate the core concepts of the overall field of economics.

Course Learning Outcomes

Upon successful completion of this course, you will be able to:

- identify how individual economic agents make rational choices given scarce resources, and explain how to optimize the use of resources at hand;
- apply basic microeconomic models related to production, trade, and the circular flow of resources;
- analyze and apply the mechanics of demand and supply for individuals, firms, and the market;
- apply the concept of marginal analysis in order to make optimal choices, and identify whether the choices are efficient or equitable;
- apply the concept of elasticity as a measure of responsiveness to various variables;
- identify the characteristics of various market structures, namely, perfectly competitive markets, non-competitive markets, and imperfectly competitive markets, and compare and contrast their operations;
- analyze how the demand and supply technique works for the resource markets; and
- analyze the role of market failure in government decisions.

Throughout this course, you will also see related learning outcomes identified in each unit. You can use the learning outcomes to help organize your learning and gauge your progress.

Recommended Textbook

Microeconomics: Principles, Problems, & Policies (McGraw-Hill Series in Economics)

Units	Topics	Learning outcomes
Unit 1	Introduction to Economics	Before we dive into the principles of microeconomics, we need to define some of the major ideas that lie at the heart of economics. What is the economic way of thinking? What do economists mean when they discuss market structure and the invisible hand? In this unit we identify and define these terms before addressing the driving principles behind microeconomics: the idea that individuals and firms (economic agents) make rational choices based on self-interest. These decisions are necessary, because resources are scarce. In other words, no good or item is infinitely available. We will also introduce a number of economic models, the assumptions and constraints associated with each, and the ways they help us better understand real-life situations.
Unit 2	Supply and Demand	In this unit we introduce the ceteris paribus assumption, which is crucial to building correlations among economic variables. When using ceteris paribus, we assume that all variables – with the exception of those in explicit consideration – will remain constant. We then examine the supply and demand models and the resulting market equilibrium that occurs where the supply curve and the demand curve intersect. We also explore what causes movements along the curve and the set of factors that cause the curves to shift, affecting both price and quantity, before discussing the meaning and significance of elasticity. Next, we explore what happens when a market fails to produce a reasonable equilibrium. This situation typically occurs when either the market is not competitive or complete, or its participants are ill-informed. We evaluate various ways the government can address these failures and begin to understand the intricate relationship between government and economics.
Unit 3	Markets and Individual Maximizing Behavior	In this unit we examine how markets increase overall welfare via the concepts of consumer and producer surplus. We explore how the concepts of marginal

		costs and benefits affect a company's decision to make one more, or one less, product. We have already learned that, at its most fundamental level, microeconomics is the study of how we make decisions. To expand on this point, we need to distinguish between the either/or and how much decision. This concept is useful when you look more closely at why firms produce certain levels of output, taking opportunity cost and sunk (fixed) cost into consideration. This unit concludes with the causes and ramifications of income inequality. While there is much debate about how to address long-term inequality, economists can objectively measures the problem's scope and offer options to manage this economic phenomenon. Protracted poverty and inequality can cause long-term harm to an economy's development.
Unit 4	The Consumer	In this unit we focus on the individual consumer and the characteristics that compel them (to choose) to spend income on goods and services. The consumer experiences utility – a measure of satisfaction – with every purchase they make, and economists measure this utility to determine a consumer's optimal rate of consumption. The theory of demand is derived from the theory of consumer behavior presented in this unit. We can explain an individual's demand function by two approaches that help illustrate personal preferences: utility analysis and indifference analysis. We explore these concepts more fully in this unit.
Unit 5	The Producer	In this unit we learn about one of the most important economic agents: the producer. The producer (a company or firm) is responsible for creating the production function (output) and is subject to various cost measures and the results of diminishing returns. We explore these ideas more fully as we delve into the relationship between quantity of input and quantity of output. We will discuss how and why a firm's costs may differ in the short run versus the long run.
Unit 6	Market Structure: Competitive and Non-Competitive Markets	This unit introduces the concept of perfect competition, an ideal model that serves as a benchmark economists use to analyze real-world market structures. The model of perfect (or pure) competition creates an efficient allocation of resources. However,

		unregulated markets (which are central to perfect competition) often fail to create desired outcomes in the real world. Economists refer to these situations as examples of imperfect competition. Here we study the model of perfect competition and move on to what many consider the antithesis of perfect competition, the monopoly model. We will explore imperfect competition and two models that fall under it: monopolistic competition and oligopoly. We also touch on game theory, when we discuss the prisoner's dilemma model and the Nash equilibrium.
Unit 7	Resource Markets	In this unit we explore how firms decide how much to use their resources (land, labor, capital, and entrepreneurial ability), which are required to produce a final good, and at what price. We derive the demand for resources from the demand for the final goods used to produce them. For example, if consumer demand for cars increases (the final good), the demand for steel (and every other resource car manufacturers use to build the car) also increases.

Assessment Summary

Weekly Tutorial Assignments	10%
Weekly Online Quizzes	10%
Lecture Demonstration	15%
Mid-Term	25%
Final Exam	40%