COURSE DESCRIPTION: This course examines how resources are allocated through market mechanisms. Students are trained to think like economists and analyze markets and other economic phenomena with economic models. Topics include: supply and demand analysis; theory of consumer demand; theory of the firm including production and costs, perfect competition, monopoly, monopolistic competition and oligopoly; and public policy analysis of various issues including, but not limited to, excise taxation, externalities and market structure. The analytical skills required for successful completion of this course are elementary mathematical and graphical ability. Strong intuition and verbal skills can be partial substitutes for technical ability.

PREREQUISITE: None

TEACHING METHODOLOGY: Primarily lecture with some discussion.


GRADE DETERMINATION: Plus/minus grades will be based upon 2 midterm exams and a final exam weighted in the following fashion:

Mid-term exam #1 (02/12/2004) 30% (60 questions)
Mid-term exam #2 (03/30/2004) 30% (60 questions)
Final exam (05/13/2004) 40% (80 questions)
TOTAL 100% (200 questions)
Examinations will consist of multiple choice questions. Examinations are closed-note, closed-book. Please bring official University of Hawaii picture identification on examination days. Please bring several sharpened number two pencils. Calculators are permitted. Dictionaries are not permitted.

PLEASE NOTE: Attendance at all examinations is mandatory. No make-up examinations will be offered under any circumstances. Students who do not sit for an exam will receive zero (0) points and a “F” letter grade on that examination. This will adversely affect the students’ course grade. Students who miss any of the above scheduled examinations are advised to withdraw from the course at their earliest opportunity. Letter grades are assigned on the University of Hawaii plus/minus grading system.
## TENTATIVE COURSE SCHEDULE

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<td><strong>LECTURE 1:</strong> Introduction</td>
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| Chapter 3, pp. 45-59. | **LECTURE 2:** Introduction (continued): Economic Methodology | Thursday, January 15, 2004 |
|                       | Production and Exchange: Production Possibilities Frontier (PPF) | |
|                       | Opportunity Cost | |

|                      | **LECTURE 3:** Production and Exchange (continued): | Tuesday, January 20, 2004 |
|                      | Comparative Advantage | |
|                      | Absolute Advantage | |
|                      | Gains from Trade | |
Chapter 4, pp. 63-88.

LECTURE 4: Thursday, January 22, 2004
Supply and Demand Analysis:
Determinants of Demand
Prices
Income
Tastes
Expectations
Normal Goods
Inferior Goods
Complementary Goods
Substitute Goods
Determinants of Supply
Output Prices
Input Prices
Technology
Weather
Expectations

LECTURE 5: Tuesday, January 27, 2004
Supply and Demand Analysis (continued):
Market Equilibrium
Price Ceilings and Price Floors
Economic Surpluses and Economic Shortages
Comparative Static Analysis

LECTURE 6: Thursday, January 29, 2004
Supply and Demand Analysis (continued):
Elasticities
Elasticity (sensitivity, responsiveness)
Price Elasticity of Demand
Relationship to Total Revenue
Substitutability - The Key to Elasticity
Measurement - Arc Elasticity vs. Point Elasticity
Income Elasticity of Demand
Cross-Price Elasticity of Demand
Price Elasticity of Supply

Chapter 5, pp. 89-112.
Chapter 6, pp.113-133.
Chapter 7, pp. 137-158

LECTURE 7: 
Tuesday, February 3, 2004
Supply and Demand Analysis (continued):
  Willingness-To-Pay as a Measure of Social Welfare
  Consumer Surplus and Producer Surplus
  The Demand Curve: A Measure of Marginal Social Benefit
  The Supply Curve: A Measure of Marginal Social Cost

Chapter 8, pp. 159-174

LECTURE 8: 
Thursday, February 5, 2004
Application: The Incidence of Excise Taxes

Chapter 9, pp. 175-199

LECTURE 9: 
Tuesday, February 10, 2004
Application: International Trade

REVIEW SESSION
Date: Tuesday, February 10, 2004
Time: 4:30-5:30 PM
Room: BIL 152

LECTURE 10: 
Thursday, February 12, 2004
MIDTERM EXAM #1
60 Multiple Choice

Chapter 21, pp. 453-478.

LECTURE 11: 
Tuesday, February 17, 2004
Modeling Consumer Behavior
  Consumer Theory:
    Budget Lines
    Prices and Income
    Revealed Preference
    Rationality
    Non-satiation ("more is preferred to less")
    Dominated Region
    Preferred Region

LECTURE 12: 
Thursday, February 19, 2004
Consumer Theory (continued):
  Application: Simultaneous Income and Relative Price Changes
  with Possible Consumer Responses Delineated via Revealed Preference
LECTURE 13: Tuesday, February 24, 2004
Consumer Theory (continued):
Preferences, Tastes
Utility Theory
Utility Functions
Cardinal Utility vs. Ordinal Utility
Indifference Curves
Application: Transfers in Cash vs. Transfers in Kind

LECTURE 14: Thursday, February 26, 2004
Consumer Theory (continued):
Derivation of a Demand Curve
Income and Substitution Effects
Giffen Goods

LECTURE 15: Tuesday, March 2, 2004
Consumer Theory (continued):
Derivation of a Demand Curve (continued)
Income and Substitution Effects (continued)
Giffen Goods (continued)

Chapter 13, pp. 267-288.

LECTURE 16: Thursday, March 4, 2004
Theory of the Firm: Production
Production Functions
Total Product
Average product
Marginal Product
Technical Efficiency
Stages of Production

LECTURE 17: Tuesday, March 9, 2004
Theory of the Firm: Duality
The Relation Between Product Curves and Cost Curves

LECTURE 18: Thursday, March 11, 2004
Theory of the Firm: Cost Curves
Variable Costs
Fixed Costs
Sunk Costs
Opportunity Cost
Chapter 14, pp. 289-311.

LECTURE 19: Tuesday, March 16, 2004
Theory of the Firm: Perfect Competition
Many Firms
Price Taking Behavior
Homogeneous Product
Free Entry and Exit
Economic Profits vs. Normal Profits
Opportunity Costs
Profit Maximization
  Total Revenue
  Average Revenue
  Marginal Revenue
The Individual Firm in Equilibrium

LECTURE 20: Thursday, March 18, 2004
Perfectly Competitive Industry:
  Short-Run Supply Curve of the Firm
  Short-Run Supply Curve of the Industry
  Long-Run Equilibrium for the Firm

REVIEW SESSION
Date: Thursday, March 18, 2004
Time: 4:30-5:30 PM
Room: BIL 152

LECTURE 21: Tuesday, March 30, 2004
MIDTERM EXAM #2
60 Multiple Choice
LECTURE 22: Thursday, April 1, 2004
Perfectly Competitive Industry (continued):
- Long-Run Supply Curve for the Industry
  - Increasing Cost Industry
  - Constant Cost Industry
  - Decreasing Cost Industry
Welfare Implications of Competitive Market Structure

Chapter 15, pp. 313-344.

LECTURE 23: Tuesday, April 6, 2004
Theory of the Firm: Monopoly
- One Firm
- Price Making Behavior
- Homogeneous Product
- Barriers to Entry
- Profit Maximization
- Revenue (Sales) Maximization
Welfare Implications of Monopoly Pricing

LECTURE 24: Thursday, April 8, 2004
Monopoly (continued):
- Price Discrimination
- Arbitrage
  - 1st Degree Price Discrimination (Perfect)
  - 2nd Degree Price Discrimination
  - 3rd Degree Price Discrimination
- Equity and Welfare Implications
Natural Monopoly

Chapter 17, pp. 373-387.

LECTURE 25: Tuesday, April 13, 2004
Theory of the Firm: Monopolistic Competition
- Many Firms
- Price Taking Behavior
- Differentiated Products
- Free Entry and Exit
- Advertising
Chapter 16, pp. 345-372.
LECTURE 26:  Thursday, April 15, 2004
Theory of the Firm: Oligopoly
   Few Firms
   Price Making Behavior
   Homogeneous or Differentiated Products
   Barriers to Entry
   Kinked Demand Curve Model
   Price Leadership
   Dominant Firm Model
   Game Theory
      Dominant Strategy
      Pure Strategy
      Mixed Strategy
      Nash Equilibrium
      Prisoners’ Dilemma

Chapter 18, pp. 391-410.
LECTURE 27:  Tuesday, April 20, 2004
Factor Markets: Labor
   Competitive Model
   Derived Demand for Labor
   Value of the Marginal Product (VMP)
   Marginal Revenue Product (MRP)

Chapter 19, pp. 411-428.
LECTURE 28:  Thursday, April 22, 2004
Factor Markets: Labor
   Supply of Labor
      Wages
      Average Factor Cost
      Marginal Factor Cost
   Backward Bending Supply

LECTURE 29:  Tuesday, April 27, 2004
Labor Markets (continued)
   Imperfect Labor Markets
   Monopsony
   Unions
   Bilateral Monopoly
   Countervailing Power
   Welfare Implications of Union Wage Policies
   The Theory of the Second-Best
Chapter 11, pp. 223-239.

LECTURE 30:
Market Failure:
- Public Goods
- Free-Rider Problem

Thursday, April 29, 2004

Chapter 10, pp. 203-222.

LECTURE 31:
Market Failure (continued):
- Externalities
- Coase Theorem
- Corrective Taxation
- Pollution Rights
- Polluting Monopolists and the Theory of Second-Best

Tuesday, May 4, 2004

REVIEW SESSION
Date: Thursday, May 6, 2004
Time: 4:30-5:30 PM
Room: BIL 152

FINAL EXAM
Thursday, May 13, 2004
12:00-2:00 PM
BIL 152