# Ford School of Public Policy 555: Microeconomics A
# Fall 2011

**Basics**
Lecture: 1:00-2:30pm Tuesdays and Thursdays, 1120 Weill (Annenberg Auditorium)
Section: 2:30-4:00pm Fridays, 1120 Weill (Annenberg Auditorium)

**Instructors**
Prof. Kevin Stange (kstange@umich.edu)
Office hours: Tuesdays 3:00-5:00pm and by appointment, 5236 Weill

GSI: Mary Cipollone (mrosec@umich.edu)
Office hours: TBD

GSI: Gregory Chojnacki (gjwc@umich.edu)
Office hours: TBD

**Course Description**
This course introduces the application of basic microeconomic analysis to public policy issues.
The principal goal is to teach students the process of microeconomic reasoning and how to apply
that reasoning to policy issues in the real world. The course covers the basic topics in
microeconomic theory: consumer theory, production theory, competitive and non-competitive
(e.g. monopolistic) markets, and game theory. Some calculus will be used along with a great deal
of algebra and graphical analysis.

**Text and Other Resources**
The textbook is *Microeconomics* by Pindyck and Rubinfeld (we will be using 7th edition, but any
recent edition is fine). Additional readings may be added as the need arises. Any other readings
will be put on reserve in the reading room and/or posted on the class ctools page. Students should
also read the New York Times and The Economist on a regular basis.

**Class attendance and participation**
Students are expected to attend and participate in class. While the class will have a lecture
format, I expect you to bring questions, comments, and answers to class. The class will be much
more enjoyable for me, you, and everyone else if we all don't have to listen to me talk for 80
minutes straight. Also, we will cover some topics in class that are not covered in the book. I will
provide handouts of *partially complete* lecture notes during class on which I encourage you to
take notes. Laptop use is not permitted during class.

**Sections**
The GSIs will lead a section every Friday from 2:30-4pm. Sections will do some limited review
of material covered in lecture, but will mostly focus on working through examples and problems,
similar to those you may see on problem set assignments and exams. Section attendance is not
mandatory, but is highly encouraged, especially if you are having difficulty translating the
material from lecture into practice.

**Problem Sets:**
There will be five graded problem sets during the term and one (non-graded) optional problem set. A problem set will be due about every two weeks on the dates below.

|  | Handed out | Due |
|---|---|---|
| Problem set 1 | September 13 | September 20 |
| Problem set 2 | September 22 | September 29 |
| Problem set 3 | October 11 | October 20 |
| Problem set 4 | October 27 | November 8 |
| Problem set 5 | November 17 | December 1 |
| Problem set 6 | December 6 | not due (solutions given with assignment) |

Students are <u>encouraged to work in small groups</u>, but each student must turn in his or her own answers. Problem sets are due at 1:10pm (beginning of lecture) the day they are due. Since solutions will be posted when problem sets are due, no late problem sets will be accepted. If you know you will not be in lecture that day, make arrangements for someone else to turn it in for you or turn it in early. Problem sets will be graded on the following five-point scale:

> 5 pts - Perfect or contains only one or two minor errors.
> 4 pts - Contains one major error, or three or four minor errors.
> 3 pts - Contains a few major errors, many minor errors, or is sometimes illegible.
> 2 pts - Contains four major errors, excessive minor errors, or is often illegible.
> 1 pt - Demonstrates little or no correct methods or answers or is illegible

Since problem sets 2 and 4 are due a few days before an in-class exam (see below) and will not be graded and returned before the exam, you are encouraged to make photocopies of your answers for use in exam preparation.

**Exams**
There will be three in-class exams held from 1:00 to 2:30 on the following dates:
> October 4
> November 10
> December 13

Each exam will roughly focus on one of the three sections of the course: consumers, producers, and markets. Though each exam covers roughly one-third of the course, the second exam covers slightly more material. Exams generally will not be cumulative, though some of the basic concepts will be used throughout the course. There will NOT be a final exam. There will be no make-up exams and no grades of incomplete. I reserve the right to change these dates with at least one week's notice should we fall behind or get ahead of schedule.

**Grading:**
Grades will be based on problem sets and the three in-class exams. Grades will be calculated as:
> 25% Problem sets
> 25% for the first exam
> 25% for the second exam
> 25% for the third exam

I anticipate that the great majority of grades will fall within the A and B range, with possibly a few A+'s and possibly a few C+'s. *Exam scores will be curved* so that the overall letter grade distribution is approximately equal to the above distribution for the course.

**Disabilities**
If you need an accommodation for a disability, please let me know within the first two weeks of classes.  (Of course if a problem arises during the semester, you should see me as soon as you can).  Some aspects of this course may be modified to facilitate your participation and progress. As soon as you make me aware of your needs, we can work with the Office of Services for Students with Disabilities to help us determine appropriate accommodations.  I will treat any information you provide as private and confidential.

**Syllabus**
The topics and associated textbook readings are described below. Please read the material in the text before class. I will try to always give you the exact page numbers corresponding to what I plan to cover each class at least one class ahead of time. Depending on the exact pace of things, we may deviate from this schedule slightly. I will close each lecture with a reading plan for next time: that will be the authoritative schedule.

# Public Policy 555 Micro A Syllabus, Fall 2011

| Date | Day | Description | Topic (# lectures) | Specific topics | Readings in P&R | Problem Sets |
|------|-----|-------------|--------------------|-----------------|------------------|--------------|
| 6-Sep | Tues | Lecture 1 | Intro to the course (1) | Tradeoffs, prices, markets, micro, what all this means for policy, start supply and demand curves | 1, 2 | |
| 8-Sep | Thurs | Lecture 2 | Supply and demand basics (2) | Supply and demand curves, equilibrium, changes in equilibrium (shifts in curves), elasticities | 2 | |
| 13-Sep | Tues | Lecture 3 | | Introduce consumer and producer surplus, price controls | 2, 9.1 | 1 out |
| 15-Sep | Thurs | Lecture 4 | Consumer behavior (2) | Preferences, budget constraints, MRS, choice, revealed preference, marginal utility | 3 | |
| 20-Sep | Tues | Lecture 5 | | | | 1 in |
| 22-Sep | Thurs | Lecture 6 | Individual and market demand (3) | Indiviual demand, income and substitution effects, market demand, consumer surplus | 4 | 2 out |
| 27-Sep | Tues | Lecture 7 | | Possible applications: labor supply, welfare, Food Stamps, retirement savings | | |
| 29-Sep | Thurs | Lecture 8 | | More applications | | 2 in |
| **4-Oct** | **Tues** | **In-class exam: Covers Lectures 1 through 8 (Chapters 1, 2, 3, and 4)** | | | | |
| 6-Oct | Thurs | Lecture 9 | Risk and uncertainty in consumer behavior (2) | Describing risk, preferences towards risk, reducing risk, behavioral economics | 5 | |
| 11-Oct | Tues | Lecture 10 | | | | 3 out |
| 13-Oct | Thurs | Lecture 11 | Production (1) | Technology of production, production with one and two inputs, APL, MPL, returns to scale | 6 | |
| 18-Oct | Tues | Fall Study Break: No Class | | | | |
| 20-Oct | Thurs | Lecture 12 | Cost of production (1.5) | Defining and measuring costs, short-run costs, long-run costs, cost curves | 7 | 3 in |
| 25-Oct | Tues | Lecture 13 | Competitive supply & profit maximization (1.5) | Describing competitive markets, profit maximization (MR=MC=P),  output in short-run, short-run supp | 8 | |
| 27-Oct | Thurs | Lecture 14 | | producer surplus, output in long-run, industry long-run supply | | 4 out |
| 1-Nov | Tues | Lecture 15 | Analysis of competitive markets (3) | Consumer and producer surplus, DWL, efficiency and limitations of competitive market, | 9 | |
| 3-Nov | Thurs | Lecture 16 | | minimum prices, price supports and production quotas, quotas and tariffs, taxes and subsidies | | |
| 8-Nov | Tues | Lecture 17 | | | | 4 in |
| **10-Nov** | **Thurs** | **In-class exam: Covers Lectures 9 through 17 (Chapters 5, 6, 7, 8, and 9)** | | | | |
| 15-Nov | Tues | Lecture 18 | Market power (2) | Monopoly, monopoly power and sources, social costs of monopoly, | 10 | |
| 17-Nov | Thurs | Lecture 19 | | monopsony, limiting market power | | 5 out |
| 22-Nov | Tues | Lecture 20 | Pricing with market power (2) | Capturing consumer surplus, price discrimination, intertemporal price discrimination, peak-load pricing | 11 | |
| 24-Nov | Thurs | Thanksgiving: No Class | | | | |
| 29-Nov | Tues | Lecture 21 | | two-part tariffs | | |
| 1-Dec | Thurs | Lecture 22 | Monopolistic competition and oligopoly (2) | Monopolistic competition, oligopoly, price competition, prisoners' dilemma, cartels | 12 | 5 in |
| 6-Dec | Tues | Lecture 23 | | | | 6 out |
| 8-Dec | Thurs | Lecture 24 | Game theory (1) | Gaming and strategic decisions, dominant strategies, nash equilibrium, repeated games, sequential ga | 13 | |
| **13-Dec** | **Tues** | **In-class exam: Covers Lectures 18 through 24 (Chapters 10, 11, 12, and 13)** | | | | |