Semester 1 (18 points)

ECON 201: *Microeconomics*

Course Information for 2012

Lecturers:	**Paul Hansen** 7.27 Commerce Building (479) 8547 paul.hansen@otago.ac.nz	**Viktoria Kahui** 7.18 Commerce Building (479) 5278 viktoria.kahui@otago.ac.nz
	Terry Kerr 7.16 Commerce Building (479) 8647 terrence.kerr@otago.ac.nz	
	Our office hours will be announced.	
Senior Tutor:	**Terry Kerr** (*e.g. you **must** see Terry if you want to change tutorials*) Contact details as above.	
Dept. Admin.:	For basic administration queries, please visit the Economics 'reception' (Room 7.01a, by the lifts) on the 7th floor of the Commerce Building between 9am and 3.30pm. Or phone / email: (479) 8725; economics@otago.ac.nz	
Lecture Times:	2.00 to 2.50 on Tuesday & Thursday; and 1.00 to 1.50 on Wednesday.	
Tutorials:	50 minute class per week, times announced in 1st week of lectures.	

Course overview & objectives

The objective of ECON 201 is to promote an **understanding** of key microeconomic theories, with emphasis on their real-world **applications**. The material covered is structured around the nine 'topics' detailed in the course outline at the end of this document.

More specifically, we will try to equip students with the knowledge and skills to be able to 'make sense' of a wide range of interesting and commonplace economic phenomena relating to the behaviours of individuals, firms and government organisations. The hope is that by the end of the course, students are able to read and understand non-specialist economics reporting and analysis, such as is found in *The Economist* magazine – from which most of the readings (see below) are taken.

ECON 201 is intended to complement other Business School and Humanities courses, including preparing students for other Economics papers. Naturally, ECON 201 is intended as a progression from BSNS104 & ECON 112, and therefore students are expected to have at least a working knowledge of introductory microeconomics, although this material will be revised along the way (especially in the first couple of weeks).

How does ECON 201 relate to ECON 270 & ECON 271?

Relative to ECON 270 and ECON 271 (see their prescriptions below), there is much less emphasis in ECON 201 on the technical derivations of consumer and producer theory. ECON 201's emphasis is on **applications**; the technical derivations are in ECON 270 and ECON 271.

Students seeking microeconomic applications as well as the more 'hard-core' theoretical derivations – perhaps because they want, one-day, to be professional economists (rather than just picking up Economics for other intended professions) – are strongly encouraged to do both ECON 201 and ECON 271 (and ECON 270, if they have 'room' in their degrees).

All students entering Honours must complete ECON 271 (as well as ECON 202, ECON 210 and ECON 270 etc.). That is, Honours students do **not** have to take ECON 201. Other students may do the same (i.e. take ECON 271 instead of ECON 201) if they wish (and meet the pre-reqs).

ECON 270: *Introduction to Mathematical Economics*

(18 points, Semester 2)

The principal aim of this course is to introduce students to how mathematics can be used to sharpen and clarify economic analysis. By the end of the course successful students will be comfortable with the basic mathematical methods, which are indispensable for a proper understanding of economics, and will have some facility at tackling economic problems using a mathematical framework. If you know some simple calculus you will find the course manageable, interesting and challenging, as well as helpful in understanding other Economics and Finance courses.

Paper Co-ordinator: Mohammad Jaforullah

Prerequisites: ((BSNS 104/ECON 111 and ECON 112) or ECON 101) and (QUAN 102 or FINQ 102 or (MATH 102 and MATH 103) or MATH 160)

ECON 271: *Intermediate Microeconomic Theory*

(18 points, Semester 1)

The paper presents an analytic approach to intermediate microeconomics and emphasises the fundamental conceptual foundations. The paper aims to demonstrate how microeconomics can be used to explain and predict household and firm behaviour and to demonstrate the effect of government policy on household and firm decision making. During the paper you will develop problem-solving skills, so reinforcing your understanding of both microeconomic and mathematical concepts. By the end of the paper you should have enhanced your ability to reason logically and accurately.

Paper Co-ordinator: Murat Genc

Prerequisites: (BSNS 104 and ECON 112) and (QUAN 102 or FINQ 102 or MATH 160 or MATH 170)

Minimum reading for ECON 201

Each of the topics has reading (detailed below) that must be done as a minimum requirement. A course book with photocopied readings from several textbooks, *The Economist* magazine, and other sources will be available for **purchase from Uniprintshop in the ISB**, priced at the cost of photocopying and binding. Copies will also be on Close Reserve in the Central Library (that you can borrow at no charge if you do not want to buy the book). This approach allows us to tailor the readings to what we intend covering in the course (rather than the other way round), and via *The*

Economist articles, to provide up-to-date summaries of key economic theories and real-world applications.

Photocopying and distributing the above-mentioned materials in this manner is legal. Under the University's Copyright Licence we "may make multiple copies for teaching but limited to: 10% of a work or one chapter, whichever is larger; [and] one article from a periodical ..."

Some students may desire a conventional textbook in its entirety. Two books that were prescribed for ECON 201 in the (distant!) past are: *Microeconomics. Theory & Applications* (2002), by E.K. Browning & M.A. Zupan, and *Microeconomics & Behaviour* (various editions), by Robert H. Frank. Indeed, any of the books referred to in the outline below are also worthwhile having a look at. Note that the above-mentioned books are **not** required reading, but second-hand copies may be available – and from the library – if you want them (that's up to you!).

Lecture notes

Our responsibility, we believe, is teaching the course (and making it interesting!!!) and making reading materials and ourselves available to you, whereas **yours** is attending and participating in lectures and tutorials and reading – **and taking your own notes** (if **you** want them).

Nonetheless, some notes will be provided. Handouts will be provided for some diagrams and excessively wordy material discussed in lectures (to save you copying them down). Also, photocopies of the lecture overhead slides will be posted on *Blackboard* **after** lectures, most likely at the end of each week (for people who were unable to attend lectures).

Tutorials

Tutorials are an integral part of ECON 201, and **start in the 2nd week of lectures**. You will be allocated to a tutorial during the 1st week, and the lists, together with time and place, will be posted on ECON 201's *Blackboard* web page.

If you need to change tutorials you must consult Terry Kerr (please do **not** consult Paul Hansen or Viktoria Kahui about this), as we want to ensure classes have roughly equal numbers.

As well as the standard group discussion-type activities, many tutorials will include economic 'games/experiments' that are intended to demonstrate key microeconomic concepts 'in action'. As discussed below, assignments will often be set from the games.

Assessment

Assessment will consist of weekly assignments/essays and weekly multi-choice tests, both with 'plussage', and a final exam, worth:

Weekly multi-choice tests	**20%**
Weekly assignments/essays	**20%**
Final exam	**60%**

The **weekly multi-choice tests** will be in the last 15 minutes of Tuesday's lecture and consist of 10 multi-choice questions covering the most recent (past) week's lectures and readings. For each test, if you get **8 or more answers correct** then you will earn 2 percentage points (to a maximum total of 20 points); if you get fewer than 8 you get two-tenths of a percent per correct answer (e.g. 5

correct equals 1 percentage point, 4 correct equals 0.8 percentage points, etc.). We will add the percentage points on your *10 best* results (there might be 11 tests).

The **weekly assignments/essays** will require you to do some reading to answer the question(s), or they will relate to an aspect of the game/experiment in that week's tutorial. Each tutorial is worth 2 percentage points (to a maximum total of 20 points); and we will add the percentage points on your *10 best* results (there might be 11 assignments).

'Plussage' means that your performance on weekly multi-choice tests and weekly tutorial exercise will count towards the final mark **only if** they exceed your performance in the final examination. We calculate all possible weighted combinations of the set of marks and give you the highest score. In other words, if your performance on weekly tutorials and/or tests is lower than your performance on the final exam, then your overall grade will depend entirely on your performance on the final examination (100%); and so on.

Workload

As this is a 18 point course, using the University's 'rule of thumb' you should therefore plan to devote **12 hours per week** to this course during the semester. Four of these are spent in lectures and a tutorial – leaving 8 hours per week for your own reading and study, internal assessment work and revision.

Lecture timetable for 2012 (see below for the topics to be covered and readings)

Week **beginning** ↓		*Tuesday (2.00 – 2.50)*	*Wednesday (1.00 – 1.50)*	*Thursday (2.00 – 2.50)*
1	*27 February*	Intro / Lecture 1 ♠♣♦	Lecture 2 ♣	Lecture 3 ♣
2	*5 March*	Lecture 4 ♣	Lecture 5 ♣	Lecture 6 ♣
3	*12 March*	Lecture 7 ♣	Lecture 8 ♣	Lecture 9 ♣
4	*19 March*	Lecture 10 ♠	Lecture 11 ♠	Lecture 12 ♠
5	*26 March*	Lecture 13 ♠	Lecture 14 ♠	Lecture 15 ♠
6	*2 April*	Lecture 16 ♠	Lecture 17 ♠	Lecture 18 ♠
	9 April	Mid-sem. break	Mid-sem. break	Mid-sem. break
7	*16 April*	Lecture 19 ♠	Lecture 20 ♠	Lecture 21 ♠
8	*23 April*	Lecture 22 ♦	Lecture 23 ♦	Lecture 24 ♦
9	*30 April*	Lecture 25 ♦	Lecture 26 ♦	Lecture 27 ♦
10	*7 May*	Lecture 28 ♦	Lecture 29 ♦	Lecture 30 ♦
11	*14 May*	Lecture 31 ♦	Lecture 32 ♦	Lecture 33 ♦
12	*21 May*	Lecture 34 ♦	Lecture 35 ♦	Lecture 36 ♦
13	*28 May*	Buffer / revision ♠♣♦	Buffer / revision ♠♣♦	No lecture

Lecturers: ♣: Terry Kerr (8 lectures) ♠: Paul Hansen (12 lectures) ♦: Viktoria Kahui (15 lectures)

(***Copied*** – ha ha ha ha! – from the University's regulations:)

DISHONEST PRACTICE & PLAGIARISM:

STUDENTS SHOULD MAKE SURE THAT ALL SUBMITTED WORK IS THEIR OWN.

Any student found responsible for dishonest practice (for example, copying another student's test or tutorial answers, the use of unauthorised material in tests, etc) in relation to any piece of work submitted for assessment shall be subject to the University's dishonest practice regulations, which may result in various penalties, including forfeiture of marks for the piece of work submitted, a zero grade for the paper, or in extreme cases exclusion from the University.

Plagiarism is a form of dishonest practice. Plagiarism is defined as the copying or paraphrasing of another's work, whether intentionally or through failure to take proper care, and presenting it as one's own. (See University of Otago Calendar 2009 page 216.) In practice, plagiarism includes any attempt in any piece of submitted work to present as one's own work the work of another (whether of another student or of a published authority). Any student found responsible for plagiarism shall be subject to the university's dishonest practice regulations as outlined above.

Class representatives

The class representative system provides students with a vehicle for communicating their views on matters associated with the teaching and delivery of their paper or course of study. It provides staff with the opportunity to communicate information to and gain constructive feedback from students. It contributes to the development of a sense of community within a Department/School and it adds a further dimension to the range of support services that the University of Otago offers its students. The School of Business fully supports the class representative system.

Volunteers to act as class representatives for this paper will be called early in the semester. OUSA then invites all class representatives to a training session, conducted by OUSA, about what it means to be a class representative and some of the possible procedures for dealing with issues that arise. They also provide information on the services that OUSA offers and the role OUSA can play in solving problems that may occur. The OUSA also provides ongoing support to class representatives during the semester. School of Business staff will also meet during the semester with the class representatives for this paper to discuss general issues or matters they wish to have considered

Disclaimer

Although every effort has been made to ensure that the information contained in this document is accurate, this information may be subject to change. We will notify you of changes in class and on *Blackboard*. It is your responsibility to be informed.

Course outline & readings

(Don't be alarmed: most of *The Economist* articles listed below are just 2-3 pages long.)

INTRO ***Lecture 1 (week 1)***	**Introduction to the course** Course overview, objectives, expectations and administration. **How much microeconomics have *you* forgotten in just one semester (since BSNS 104/ECON111/112)?** This is to highlight the material from BSNS104/ECON111/112 that you will need to revise on your own. Some of it will be reviewed in our 1st topic below.
READING:* (6 pages)	▪ "The benevolence of self-interest", *The Economist*, Dec 10th 1998 ▪ "Intelligent design", *The Economist*, Oct 18th 2007 ▪ "Homo economicus", *The Economist*, Apr 7th 2005

TOPIC 1 ***Lectures 2, 3, 4 (weeks 1 & 2)***	**Review & extensions of consumer choice theory & competitive markets** The derivation of demand curves. The efficiency of competitive markets and the Invisible Hand Theorem. New material will include income and substitution effects of price changes, in preparation for Topic 2 (below).
REVISION:	✓ Chapters 5 (including the Appendix on Indifference Curves) & 7 of the BSNS104 /112 textbook, *Principles of Economics* (2nd / 3rd / 4th eds), by R.H. Frank & B.S. Bernanke, or any other introductory-level textbook (e.g. available from the library), and/or your BSNS104/ECON112 notes.
NEW READING: (16 pages)	▪ Sections 4.1 - 4.3 of *Introduction to Microeconomics*, by P. Wooding. (Hopefully this material is mostly familiar already ...)

* As mentioned earlier, these readings are available in a course book that may either be bought **from Uniprintshop in the ISB** or borrowed from Close Reserve in the Central Library. **This book is a bit different from last year's version: we've added and removed a few things.**

TOPIC 2 ***Lectures 5, 6 (week 2)***	**Some new & topical *applications* of consumer choice theory** (a) How much to save or borrow (including the effects of interest rate changes on student loan borrowing)? (b) How much to work or play? (c) If you are altruistic, how much to give other people? (d) Paying for rubbish collection by "the bag" versus from city rates
READING: (11 pages)	▪ Sections 4.4 ("Choosing between present & future consumptions") & 4.5 ("The household's choice between income and leisure") of *Introduction to Microeconomics*, by P. Wooding (as referred to above) ▪ "Taxes and taxis", *The Economist*, Jun 26th 2003 ▪ "Garbage in, garbage out", *The Economist*, Dec 5th 1997

TOPIC 3 ***Lectures 7, 8, 9 (week 3)***	**Economic psychology** Interesting aspects of human judgement and decision making based on the seminal work of cognitive psychologists Daniel Kahneman and Amos Tversky (2002 Nobel Prize winners): bounded rationality, asymmetric value functions, sunk costs, hedonic framing, judgemental heuristics and biases, regression to the mean effects and the psychophysics of perception, etc.
READING: (42 pages)	▪ "Rethinking thinking", *The Economist*, Dec 16th 1999 ▪ "All too human", *The Economist*, Oct 10th 2002 ▪ "Cognitive limitations and consumer behaviour", Chapter 8 of *Microeconomics & Behaviour*, by R.H. Frank, McGraw-Hill, 2003 ▪ "Mind games", *The Economist*, Jan 13th 2005 ▪ "Eager sellers & stony buyers. Understanding the psychology of new-product adoption", *Harvard Business Review*, June 1st 2006

TOPIC 4 ***Lectures 10, 11, 12, 13, 14, 15 (weeks 4 & 5)***	**Market power — causes, consequences & cures** A quick revision of producer theory, cost curves and perfect competition versus the standard neoclassical theories of imperfect competition (monopoly, oligopoly and monopolistic competition). Competition (anti-trust) policy. Natural monopolies. Cartels: their creation and self-destruction. Innovation and 'creative destruction'. The so-called 'new economy', etc.
REVISION:	✓ Chapters 6 & 9 (but not necessarily Price Discrimination) of the BSNS104/ECON111/112 textbook, *Principles of Economics* (2nd ed; or ch 10 instead of 9 if 3rd ed), by R.H. Frank & B.S. Bernanke, or any other introductory-level textbook (e.g. available from the library), and/or your ECON112 notes.
NEW READING: (33 pages)	▪ Sections 10.1 ("Price and output under monopoly") and 10.2 ("Sources of monopoly power"), of *Price Theory & Applications*, by S.E. Landsburg, West, 1995 ▪ "The growth machine", *The Economist*, May 16th 2002 ▪ "Catch the wave", *The Economist*, Feb 18th 1999 ▪ "Searching for the invisible man", *The Economist*, Mar 9th 2006 ▪ "In praise of entrepreneurs", *The Economist*, Apr 26th 2007 ▪ "Global heroes", *The Economist*, May 12th 2009 ▪ "An idea whose time has come ", *The Economist*, May 12th 2009 ▪ "Knowledge is power", *The Economist*, Sep 21st 2000 ▪ "Google's enemies", *The Economist*, Jun 30th 2011

TOPIC 5 ***Lectures 16, 17, 18 (week 6)***	**Strategy** Game theory – including, instantaneous and sequential games, and one-off and repeated games – and its applications to a wide range of strategic interactions between individuals, firms and countries.
REVISION:	✓ Chapter 10 of the BSNS104/ECON111/112 textbook, *Principles of Economics* (2nd ed), by R.H. Frank & B.S. Bernanke, or any other introductory-level textbook (e.g. available from the library), and/or your BSNS104/ECON111 notes.
NEW READING: (24 pages)	▪ "Game Theory", Chapter 27 of *Intermediate Microeconomics. A Modern Approach*, by H.R. Varian, Norton, 1996 ▪ "Playing games with the planet", *The Economist*, Sep 27th 2007 ▪ "Common-room quarterbacks", *The Economist*, Oct 8th 2009 ▪ "War games", *The Economist*, Oct 13th 2005 ▪ "Game theory in practice", *The Economist*, Sep 3rd 2011

TOPIC 6 ***Lectures 19, 20, 21 (week 7)*** READING: (39 Pages)	**Pricing** A range of 'cunning plans' that firms with market power can use to extract consumer surplus: price discrimination, bundling, revenue or yield management, two-part tariffs, etc. ▪ "Pricing with market power", Chapter 11 of *Microeconomics*, 4th ed, by R.S. Pindyck & D.L. Rubinfeld, Prentice-Hall, 1995, pp 374-409 ▪ "The price is wrong", *The Economist*, May 23rd 2002 ▪ "They're watching you", *The Economist*, Oct 16th 2003 ▪ "Revenue management at Delta Airlines", pp 31-2 of *Managerial Economics: Applications, Strategy & Tactics*, by J.R. McGuigan, R.C. Moyer & F.H. deB. Harris, South-Western, 2002

TOPIC 7 ***Lectures 22, 23, 24 (week 8)*** READING: (20 pages)	**Market responses to limited information** *Asymmetric Information.* A key assumption of the competitive model is that buyers and sellers have good information about product quality. This isn't always the case in reality. What happens? ▪ "Markets with asymmetric information", Chapter 17 of *Microeconomics*, 6th ed by R.S. Pindyck & D.L. Rubinfeld, Prentice-Hall, 2005 ▪ "The value of college", *The Economist*, Comment, Jan 18th 2011 ▪ "Full disclosure: the case for transparency in financial markets is not clear-cut", *The Economist*, Feb 19th 2009
Lectures 25, 26, 27 (week 9) READING: (27 pages)	*Risk & Insurance.* Limited information about future conditions creates risk. An adrenalin rush feels good every once in awhile, but most people don't like much serious risk in their lives. There's a strong demand for risk reduction. And the market system responds to that demand. We look at the ways people can spread risk, and how the market helps them do so. ▪ "Choice under uncertainty", Chapter 6 of *Microeconomics*, by W.Y.N. Morgan, M. Katz & H. Rosen, McGraw-Hill Education, 2006 ▪ "Natural disasters: the rising cost of catastrophes", *The Economist*, Jan 14th 2012 ▪ "Premium hikes hit all cities", *NZ Herald*, Oct 2nd 2011 ▪ "Setting a price on the future: the mathematics of markets", *The Economist*, Book review, Jan 14th 2012

TOPIC 8 ***Lectures 28, 29 (week 10)***	**Auctions** Auctions are used to price and allocate an increasingly wide variety of goods and services: Trademe and Ebay, real estate, car, and art auctions, government auctions for oil drilling rights, etc. How do auctions work and how do their results relate to market prices and allocations?
READING: (5 pages)	▪ "Auctions", Section 15.5, of Microeconomics, 2nd ed by D. Besanko & R.R. Braeutigam, Wiley, 2005, pp 576-85 ▪ "Game theory in practice", *The Economist*, Sep 3rd 2011 (also referred to earlier at Topic 5)

TOPIC 9 ***Lectures 30, 31, 32, 33 (weeks 10 & 11)***	**Natural resources** *Common-Property & Open-Access Resources.* A variety of natural resources – e.g. river, lake, and ocean fisheries, the atmosphere, open range land – are not "owned" by any individual person or business. What happens to the use of commons? We look at two case studies: fisheries and pollution.
READING: (36 pages)	▪ "Marine resources", Chapter 13 of *Natural Resource Economics: an Introduction* by B.C. Field, McGraw Hill, 2001 ▪ Annala J.H. 1996. "New Zealand's ITQ system: have the first eight years been a success or a failure?" *Reviews in Fish Biology and Fisheries* 6: 43-62 ▪ "Environmental economics: an overview", Chapter 13 of *Environmental Economics & Policy*, 5th ed by T. Tietenberg, Pearson Addison Wesley, 2007 ▪ Kerr S. and M. Ward. 2007. "Emissions trading in New Zealand: Introduction and context." *Paper prepared for New Zealand Climate Change Policy Dialogue*, Motu Economic and Public Policy Research, Wellington
Lectures 34, 35, 36 (week 12)	*Depletable Resources.* Other natural resources – e.g. oil, minerals, sometimes water – are in fixed supply. Can the market system be trusted to allocated these irretrievable resources efficiently over time?
READING: (19 pages)	▪ "Investment, time, and risk", pp 493-504 of *Microeconomics* by D.E. Waldman, Pearson Addison Wesley, 2004 ▪ "Allocation of depletable resources over time", of *Environmental Economics & Policy* (4th ed), by T. Tietenberg, Pearson Addison Wesley, 2004, pp 80-91, 122-9 ▪ "Big green bills on the sidewalk", *The Economist*, Comment, Nov 25th 2011