

# Syllabus

## Economics 206 Introduction to Microeconomics Western Washington University

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This is an introductory course in microeconomics. We will be studying individual economic agents (households, firms, government) and the environments in which they interact. We will use our class time for a number of activities - lecture, discussion, question and answer, and classroom experiments. It is the last of these items, the classroom experiments, that sets this course apart from most other economics courses that you could enroll in. We will use our classroom in much the same way that a chemist uses a laboratory - with the one exception that you will be both experimenter and the subject of the experiments. We will stipulate a set of rules that "defines the game" and then observe others' behavior in pursuit of certain specified objectives. We will then compare our behavior with the predictions of economic models - sometimes the models will be very accurate predictors of our behavior and other times they will not. Our main focus throughout the quarter will be to explain why or why not. As the authors of one of our textbooks put it, "Taking a course in experimental economics is a little like going to dinner at a cannibal's house. Sometimes you will be a diner, sometimes a part of dinner, sometimes both." Bon appetit!!

**Course Objectives:** Upon completion of the course, students should be able to:

1. describe basic facts about the economy and, specifically, the actions of individual decision making units in the economy.
2. apply economic analysis to everyday problems.
3. explain and analyze the theory and models economists use to describe and predict economic behavior.
4. articulate the various legal, social, environmental, ethical, technological and regulatory issues related to microeconomics.

**Texts:** The following textbooks are available in the bookstore.

1. *Microeconomics: Principles and Applications (2/e)* by Robert E. Hall and Marc Lieberman, Southwestern Publishing [REQUIRED]
2. *Experiments with Economic Principles: Microeconomics (2/e)* by Theodore C. Bergstrom and John H. Miller, McGraw-Hill (this is a workbook - avoid used copies) [REQUIRED]
3. *Mastery Study Guide for Microeconomics: Principles and Applications (2/e)* prepared by Geoffrey A. Jehle, Southwestern Publishing [STRONGLY RECOMMENDED]

**Course Requirements and Assessment of Objectives:** Your achievement of the course objectives will be evaluated in three ways. The means of assessment and the weight each carries are given below. Note that there are two alternative weighting schemes. I will use whichever option yields the highest score for you.

<i>Item</i>	<i>Option 1</i>	<i>Option 2</i>
Midterm Exam	30%	10%
Experiments and Homework (9)	30%	30%
Final Exam	40%	60%

*Midterm Exam:* The midterm will be given on February 15. The exam will be made up of both multiple choice and short answer problems. The questions will be based on experiments, lectures, readings and homework. The midterms are designed to assess all four course objectives.*Experiments and Homework:* Your grade on the experiments

will be based on your participation, performance and homework. Many of the experiments require you to do some preliminary reading and/or warm-up exercises before coming to class. This preparation is vital and failure to prepare adequately will result in a zero for the participation portion of that experiment. Your score on an experiment will be made up a of two parts:

1. **participation** (5 points) - Were you prepared for the experiment? Were you present for the experiment? Did you participate in the experiment competently and seriously?
2. **homework** (10 points) - Did you complete the homework competently and seriously? Were the answers you gave in your homework (mostly) correct?

Our experiment book is a workbook - it is meant to be written in. The pages are perforated so that they will be easy to remove. In addition, much of the work you do in the lab reports and homework will be made easier by the use of a spreadsheet (such as Microsoft Excel). I will provide an Excel version of each data set on the class web page as soon as possible after we complete an experiment. Feel free to substitute Excel output for the appropriate workbook pages. The most important thing to remember is to make sure your work is neat, complete and stapled. The experiments and homework are designed to assess course objectives (2) and (3). *Cumulative Final Exam*: The final will cover all the material from the quarter: lectures, homework, experiments, readings, and exams. The format will be similar to the midterms (multiple choice and short answer). The final is designed to assess all four course objectives

**Schedule of Topics:** After we cover the introductory material, we will proceed in a series of modules (9 total). Most modules begin with an experiment and include a discussion of the results of the experiment and more general application of the principles learned. You will find a schedule of topics, readings and homework assignments below. You are responsible to read the material before coming to class. I reserve the right to modify this schedule if necessary, although the exam dates are firm. Any changes to the schedule will be announced in class and posted on the webpage. In the materials below HL = Hall and Lieberman (*Microeconomics: Principles and Applications*) and BM = Bergstrom and Miller (*Experiments with Economic Principles: Microeconomics*)

#### INTRODUCTION

*Date(s)*: January 9

*Readings*: course syllabus; experiment guide; HL 1, 2

*Homework*: n/a

*Description*: We will spend two days discussing the format of the course and the field of microeconomics in general. This discussion will include treatment of the nature and scope of microeconomics, the definition of a social science and an explanation of how economics fits this definition, and a presentation of one of the most important ideas in economics - opportunity cost.

#### MODULE 1: Supply and Demand

*Date(s)*: January 11 and 16

*Readings*: BM 1 and BM Appendix 1; HL 3

*Homework*: BM (pp. 29-37)

*Description*: Our first experiment studies the nature of trading among a large group of buyers and sellers. We seek to understand and predict the outcome of this type of trading and how we can apply the theory to real world examples. In addition, this first experiment gives us practice recording data, working with data and comparing our experimental results to theoretical predictions.

#### MODULE 2: Shifts, Comparative Statics and Elasticity

*Date(s)*: January 18, 23, 25

*Readings*: BM 2 and BM Appendices 2, 3, 4; HL 3, 4

*Homework*: BM (pp. 53-56)

*Description*: This experiment explores the effects of changes in market conditions. The basic supply and demand model assumes that a number of factors affecting supply and demand are held constant. Here we relax these assumptions. In this module you will learn about the difference between a shift in a curve and movement along a curve, how to calculate and interpret elasticity coefficients, and how to conduct comparative static analysis of supply and demand models.

#### MODULE 3: Sales Tax

*Date(s)*: January 30

*Readings:* BM 3; HL 15 (pp. 435-440)

*Homework:* BM (pp. 85-90)

*Description:* This is the first of four modules in which we study what happens when the market process is interrupted. We will examine how a sales tax shifts the supply curve, how we can determine who pays for the tax (tax incidence), the overall effect of a tax on efficiency, and analyze subsidies.

MODULE 4: Labor Markets and the Minimum Wage

*Date(s):* February 1 and 6

*Readings:* BM 5; HL 11 and 12 (pp. 369-371)

*Homework:* BM (pp. 145-151)

*Description:* This experiment introduces us to labor markets through one of the most politically charged issues in economics - the minimum wage. We will discuss how a minimum wage impacts workers and under what conditions a minimum wage is reasonable. This topic deals with regulatory and ethical issues.

MODULE 5: Externalities

*Date(s):* February 8 and 13

*Readings:* BM 6; HL 15 (pp. 445-454)

*Homework:* BM (pp. 177-183)

*Description:* What does economics have to say about pollution, fishing rights or road construction? This module introduces us to markets in which the competitive outcome may not be the most socially desirable one. We will consider a variety of responses to these types of problems and examine potential solutions from an economic perspective. Special emphasis will be given to the role of property rights in this discussion. This topic deals with environmental, regulatory and ethical issues.

MIDTERM EXAM - February 15

MODULE 6: Production and Cost

*Date(s):* February 20 and 22

*Readings:* BM 10; HL 6, 7

*Homework:* BM (pp. 293-294)

*Description:* This module begins our study of firms and their operation. The experiment here is a bit different because it does not involve trading; rather each of you plays the role of a worker in a firm. We will vary the number of workers and discuss how to measure productivity. This will allow us to observe the law of diminishing returns, study the concepts of fixed and variable factors in a production process and learn a bit about experimental design. This module includes discussion of technological issues.

MODULE 7: Competitive Markets - Short Run and Long Run

*Date(s):* February 27 and March 1

*Readings:* HL 8; BM 8

*Homework:* BM (pp. 243-247)

*Description:* In this module we summarize our study of competitive markets by looking at long-run decision making by the firm. Central to this discussion is the decision on the part of firms to operate at a loss or shutdown altogether. We will examine conditions under which each of these alternatives is appropriate.

MODULE 8: Market Structures

*Date(s):* March 6 and 8

*Readings:* BM 7; HL 9, 10

*Homework:* BM (217-221)

*Description:* In this module we move beyond competitive markets and study monopolies, oligopolies, cartels, etc. We will examine sources of market power, why cartels are likely to fail, price discrimination, and strategy. Our goal is to understand how firms might behave differently in these alternative market structures. Included here is a discussion of antitrust law and regulation.

MODULE 9: Auctions

*Date(s):* March 13 and 15

*Readings:* BM 13; handout

*Homework:* BM (pp. 373-375)

*Description:* In our final module we examine a particular type of trading institution that is of particular interest to economists - an auction. The main reason that auctions are so widely studied by economists is that they present a unique opportunity to completely define the rules and institutions by which trade is conducted. FINAL EXAM - March 23, 8-10 am

**Late Homework/Make-up Exams:** All homework should be turned in during class

on the assigned due date. Late homework will not be allowed except in the following circumstances: illness (documentation required), death in the family, or travel on University business. Please contact me as soon as possible if you find yourself in one of these situations. There will be no make-up for the midterm exam. If you have an approved reason for missing an exam (see list above) your final will be reweighted to account for the missed exam.

**Academic Dishonesty:** Cheating in any form will not be tolerated in this class. Anyone caught cheating will receive a zero for the assignment or exam in question and/or an F for the course. In addition, anyone caught cheating may be subject to further disciplinary action by the university. Activities that I consider cheating include (but are not limited to): using "cheat sheets" during an exam, reading from someone else's exam, helping someone else read from your exam, plagiarism of any kind, and direct copying of someone else's homework. You should make yourself familiar with the university's policy on academic dishonesty found on page 352 of the 99-00 Bulletin. If you have any concerns or questions please see me.

**A Final Word:** Economics is a challenging subject. Mastery of the material in this course will require that you (i) stay caught up on your reading, (ii) attend class faithfully, (iii) work through as many problems as possible (both assigned in homework and extra problems from Hall and Lieberman), and (iv) see me as soon as possible if you encounter a problem. It is unlikely that you will be successful in this course if you simply memorize facts and figures. Most of the questions you face on exams will be "trick" questions in the sense that they will require you to apply a concept or idea to a new situation. This type of analysis and application is at the heart of the discipline. Seize the opportunity to develop this new way of analyzing problems, it will serve you well wherever your career may take you.

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