



ECON1010: PRINCIPLES OF MICROECONOMICS

1.0 COURSE DESCRIPTION

Introduction to economic theory and the principles of supply and demand, with a focus on economic decision making of firms and individuals.

2.0 Purpose of the course

By the end of the course the student should have a good understanding of individual, market and firm behavior so as to be able to effectively and profitably work in a given environment.

3.0 Link to university mission outcomes

The unit will expose students to economic knowledge and its application, the acquisition of skills, and the development of intellect and character in a manner that prepares them to contribute effectively and ethically as citizens of a changing and increasingly technological world.

This will be achieved through development of high level thinking, by developing and demonstrating the ability to think critically and analytically

3.1 Link to the school of business outcomes

The unit will provide students with a range of knowledge, skills, and problem-solving abilities to respond to the need for successful management of business firms and organizations by giving them an understanding of the economic environment and its effects on business operations.

4.0 COURSE LEARNING OUTCOMES

- To help the student think as an economist or business person using various economic concepts and principles.
- To develop the ability to identify the principles of microeconomics, their contribution and limitations.

- To understand consumer and producer behaviour by focusing on the decision-making process of firms and individuals.
- To identify and understand the different types of market structures and their implication on consumer welfare.

5.0 WEEKLY OUTCOMES

5.1 ***WEEK 1 & 2: THE NATURE AND SCOPE OF ECONOMICS AND THE ECONOMISING PROBLEM***

Learning outcomes:

- Articulate the basic economic problem faced by all human societies.
- Define and explain the concept of opportunity cost, efficiency and inefficiency and illustrate these concepts graphically using the production possibility frontier.
- Define the meanings of the terms efficiency and equity.
- Appreciate how different types of graphs, diagrams and models can be used to illustrate the relationship between different economic variables.
- Understand the differences between different economic systems, and their responses to the economizing problem.

Contents:

What is economics?; The importance of economics; Microeconomics vs macroeconomics; Economic methodology; Importance of diagrams in economics; The economizing problem; The foundation of economics; Types of economic systems; The production possibility frontier; Consumer sovereignty and its limitations

Ref: Chapter 1 & 2, Course text: Gregory Mankiw, (2004), Principles of Microeconomics, 4th Ed.

5.2 ***WEEK 3: THEORY OF DEMAND AND ELASTICITY***

Learning outcomes:

- Define demand and interpret a demand curve.
- Identify the factors which influence demand.
- Differentiate movement along a demand curve and shift in a demand curve and identify factors responsible.
- Describe the differences between normal, inferior, Giffen and Veblen goods.
- Describe and explain the consumer surplus.
- Define elasticity of demand and understand the concepts of price, income and cross elasticity of demand.
- Identify factors which influence elasticity of demand.
- Illustrate the practical uses of price, income and cross elasticity of demand.

Contents:

Markets defined; Nature of demand and its determinants; Individual vs. market demand; The slope of a demand curve and its economic interpretation; Movement along vs. shift of a demand curve; Elasticity of demand; Point vs. arc elasticity of demand; Cross, price and income

elasticity of demand; Uses of elasticity of demand.

Ref: Course text, Chapter 4 & 5

***** **Assignment 1** *****

5.3 **WEEK 4: THEORY OF SUPPLY AND ELASTICITY**

Learning outcomes:

- i. Define supply and interpret the supply curve and supply function.
- ii. Describe the main determinants of supply.
- iii. Identify the factors which bring about a movement along a supply curve and a shift of the supply curve.
- iv. Define elasticity of supply and identify influencing factors.
- v. Define and explain the meaning of the term producer surplus.

Contents:

The nature of supply and its determinants; Individual vs. market supply; The slope of the supply curve and its economic interpretation; Movement along vs. shift of the supply curve; Elasticity of supply and its determinants; Point vs. arc elasticity of supply; Application of elasticity of supply; Producer surplus.

Ref: Course Text, Chapter 4, 5 & 7

5.4 **WEEK 5: EQUILIBRIUM AND ITS APPLICATION**

Learning outcomes:

- i. Describe the term equilibrium.
- ii. Explain and graphically illustrate how equilibrium in the market is achieved and maintained.
- iii. Identify the different types of equilibrium.
- iv. Mathematically determine equilibrium price and quantity.
- v. Criticise price mechanism.

Contents:

Equilibrium in the market; Stable vs. unstable equilibrium; Dis-equilibrium; Application of algebra in price mechanism; Weaknesses of price mechanism.

Ref: Course Text, Chapter 4

***** **Assignment 2** *****

5.5 **WEEK 6 & 7: CONSUMER BEHAVIOUR AND UTILITY MAXIMISATION**

Learning outcomes:

- i. Define the term utility and explain the differences between cardinal and ordinal approaches to the study of consumer behaviour.
- ii. Define marginal utility and outline the Cardinalist's explanation to why an individual's demand curve normally slopes down from left to right.
- iii. Derive a budget line from the knowledge of the prices of two goods and consumer's income.
- iv. Show how a consumer will maximize his utility in choosing between two goods by equating the marginal rate of substitution (the slope of the individual's indifference curve) to the ratio of the prices of two goods (the slope of the budget line).
- v. Define the law of diminishing marginal utility and explain how demand schedules/curves can be derived from marginal utility schedules/curves.

Contents:

The Cardinal utility theory and its' assumptions; The Ordinal utility theory; Indifference curves analysis and its' characteristics; The budget line and its' economic interpretation; Changes in the budget line (price-consumption and income-consumption lines/curves); Consumer equilibrium - effects on equilibrium as income and relative prices change (the substitution, income and total effects).

Ref: Course Text, Chapter 21

*****MID SEMESTER EXAM*****

5.6 **WEEK 8 & 9: THE THEORY OF PRODUCTION**

Learning outcomes:

- i. Recognise that in economics production costs are based on the concept of opportunity cost, and explain the difference between accounting and opportunity cost.
- ii. The distinction between normal and economic profit.
- iii. Define fixed and variable costs, show that in the short-run average and marginal costs will eventually rise as 'diminishing returns' set in.
- iv. Explain the role of economies and diseconomies of scale in determining the shape of a firms' long-run average cost curve.
- v. Show that the firms' profit will be maximized at the point where the marginal cost curve cuts the marginal revenue curve from below.

Contents:

The production function; Forms of business organizations; Factors of production; Short-run variations in output; The law of diminishing returns; Short run variations in cost; Long-run variations in output – the isoquant analysis; Long-run variations in costs; Economies of scale and diseconomies of scale; The isocost line and its' slope; The least-cost factor combination point and the expansion path.

Ref: Course Text, Chapter 13

Chapter 2 & 9: An Introduction to Modern Economics, Hardwick P. et al, 5th Ed. (London: ELBS1999)

*****Assignment 3*****

5.7 **WEEK 10: PURE/PERFECT COMPETITION**

Learning outcomes:

- i. Define and outline the assumptions on which the model of perfect competition is based.
- ii. Illustrate and explain the short-run and long-run equilibrium positions of a perfectly competitive firm and industry.
- iii. Show that in the absence of externalities, perfect competition will lead to a Pareto optimal allocation of resources.
- iv. Behavioural rules of profit maximization in the short- and long-run.

Contents:

Assumptions of perfect competition; Profit maximizing output in the short-run; Profit maximizing output in the long-run; The firms' supply curve; Perfect competition and economic efficiency.

Ref: Course Text, Chapter 14

Chapter 9: An Introduction to Modern Economics, Hardwick P. et al, 5th Ed. (London:

ELBSI999)

***** Assignment 4*****

5.8 **WEEK 11: PURE MONOPOLY**

Learning outcomes:

- i. Define the term monopoly and draw diagrams showing equilibrium of a profit maximizing monopolist.
- ii. Identify the conditions under which price discrimination can be practiced and the reasons for its' widespread use.
- iii. Explain price discrimination and dumping and related problems associated with monopolistic behaviour.

Contents:

Characteristics of monopoly; Barriers to entry; Monopolist demand curve; Monopoly equilibrium;

Discriminating monopolist; Government intervention.

Ref: Course Text, Chapter 15

Chapter 10: An Introduction to Modern Economics, Hardwick P. et al, 5th Ed. (London: ELBSI999)

5.9 **WEEK 12: MONOPOLISTIC COMPETITION**

Learning outcomes:

- i. State how monopolistic competition differs from perfect competition.
- ii. Define the term 'monopolistic competition' and draw diagrams showing the short-run and long-run equilibrium positions for firms in this market structure.
- iii. Explain how price and output are determined under monopolistic competition and under perfect competition.
- iv. Compare the price, profits, output, efficiency and variety of products under monopolistic competition and those under perfect competition.

Contents:

Characteristics of monopolistic competition; Price and output determination in the short-run; Price and output determination in the long-run; Non-price competition; Monopolistic competition and economic analysis.

Ref: Course Text, Chapter 17

Chapter 10: An Introduction to Modern Economics, Hardwick P. et al, 5th Ed. (London: ELB51999)

5.10 **WEEK 13: OLIGOPOLY AND DUOPOLY MODELS**

Learning outcomes:

- i. State how oligopoly differs from monopoly.
- ii. Describe the factors responsible for oligopoly.
- iii. Explain why the demand curve may be kinked under oligopoly, and if so why it is likely to result in price stability.
- IV. Explain how a cartel will determine price and output, and contrast this situation with the case of price leadership.

Contents:

Characteristics of oligopoly and duopoly markets; Output and price determination under oligopoly; Noncollusive oligopoly - Cournots' model, The Sweezy/Kinked demand curve model; Collusive oligopoly price leadership; Role of non-price competition; Oligopoly and economic efficiency; Cartels.

Ref: Course Text, Chapter 16

Chapter 10: *An Introduction to Modern Economics*, Hardwick P. et al, 5th Ed. (London: ELB51999)

*****WEEK 14: FINAL EXAMINATION*****

TEACHING METHODOLOGY

Lectures and class discussions

Group work

Assignments and quizzes

KEY INSTITUTIONAL ACADEMIC POLICIES

No make-up Examinations

More than 5 absences will result in an F grade. Students are advised to personally monitor their class attendance.

Plagiarism not encouraged. Where material has been lifted from a document, students should quote source.

COURSE TEXTS

G.N., Mankiw.(2004) *Principles of Microeconomics 3rd edition*

McConnell, Campell. (2012) *Economics: Principles, Problems, and Policies*

SUPPLEMENTARY READINGS

1. Lipsey, R. G.: *An Introduction to Positive Economics*, 6th and 7th Ed.(London:ELBS 1983)

2. Samuelson, P. A. (1989), *Economics*, II th Edition, McGraw and Hill, London

3. Shapiro, E. (1982), *Macroeconomic Analysis*, Harcourt Brace Javanovich Inc, N/Y ork

4. Todaro, M. P. (1982), *Economic Development in the Third World*, Longman, N/York

COURSE EVALUATION

Final Grade

Class attendance and participation 10%

Class assignments and quizzes 30%

Mid-Quarter exam 30%

Final exam 30%

GRADING

90 - 100	A
87 - 89	A-
84 - 86	B+
80 - 83	B
77 - 79	B-
74 - 76	C+
70 - 73	C
67 - 69	C-
64 - 66	D+
62 - 63	D
60 - 61	D-
Below 59	F