

Ford School of Public Policy 555: Microeconomics A

Fall 2014

Basics

Lecture: 10:00-11:30am Tuesday and Thursday, 1120 Weill (Annenberg Auditorium)

Section: 1:00- 2:30pm Friday, 1120 Weill (Annenberg Auditorium)

Instructors

Prof. Kevin Stange (kstange@umich.edu)

Office hours: Thursday 3:00-5:00pm and by appointment, 5130 Weill

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Office hours: TBD

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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 8th edition, but any recent edition is fine). We will also be supplementing a few lectures with readings from a few other sources (indicated with * in the schedule). Additional readings may be added as the need arises and will be posted on the class tools 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. As noted below, class participation will account for 10% of your grade. This will mostly be measured by your use of the "i>clickers." Absences must be excused by the GSI or professor at least 48 hours prior to lecture. 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.

Clickers

We will use i>clickers during class to facilitate discussion and to provide feedback to me about your understanding of the material. You can purchase one from the UofM Computer Showcase

in the Student Union or North Campus for \$25 (used) or \$38 (new). You will most likely need these starting in Lecture 3.

Sections

The GSIs will lead a section every Friday from 1:00-2:30pm. 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.

	<u>Handed out</u>	<u>Due</u>
Problem set 1	September 9	September 16
Problem set 2	September 18	September 25
Problem set 3	October 7	October 16
Problem set 4	October 23	November 4
Problem set 5	November 13	November 25
Problem set 6	December 2	not due (solutions given with assignment)

Students are encouraged to work in small groups, but each student must turn in his or her own answers. Problem sets are due at 10:10am (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 10:00 to 11:30am on the following dates:

- September 30
- November 6
- December 9

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 and tools 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 class participation, problem sets, and the three in-class exams. Grades will be calculated as:

10% Participation and iclickers

22.5% Problem sets

22.5% for the first exam

22.5% for the second exam

22.5% 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 as soon as possible. (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 2014

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

* Indicates supplemental reading in new *Microeconomics* book by Goolsbee, Levitt, and Syverson