

Introductory microeconomics

Academic Level: BSc

Credit Value: 5 ECTS

Hours in class: 32 hours

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Prerequisites None

Aim of the course

The objective of the course is to make students acquainted with international standards, trends and concepts in contemporary microeconomics. The course is designed to help the students to get skills, abilities and content knowledge required to pass the Advanced Placement Test (APT) which is carried out annually worldwide by American College Board.

The purpose of the course is to give students a thorough understanding of the principles of economics in application to individual decision makers, both consumers and firms. The course concentrates on the nature and functions of product markets. It includes the study of factor markets and of the efficiency and failures of competitive markets.

Course outline

1. Basic economic concepts

Scarcity and choice. Opportunity costs and trade-offs. Marginal analysis. Production possibility frontier. Absolute and comparative advantage. Specialization and exchange. Economic systems.

2. Supply and demand

Determinants of demand and supply. Market equilibrium. Deficit and surplus. Price and quantity controls. Stability of market equilibrium. Consumer surplus, producer surplus and market efficiency. Tax incidence and dead weight loss.

3. Elasticity

Price elasticity of demand. Elasticity of demand and total revenue of the firm. Cross-price elasticity. Price and income elasticity of demand. Application of elasticity theory: taxation.

4. Consumer choice

Total and marginal utility. Indifference curves. Marginal rate of substitution. Budget constraint. Utility maximizing conditions. Adjustment to price and income changes: income effect and substitution effect. Normal and inferior goods. Substitutes and complements. Consumer choice and the law of demand. Individual and market demand curves.

5. Producer theory: revenues and costs

Production functions: short and long run. Average and marginal product. Diminishing returns. Opportunity cost and accounting costs. Total, average and marginal costs: short run and long run.

Economies of scale. Productivity and costs. Cost minimizing input combination. Total, average and marginal revenues. Accounting versus economic profits. Profit maximization.

6. Firm behaviour and market structure: perfect competition

Product markets: characteristics and types. Perfect competition as a market structure. A perfectly competitive firm and market: profit maximization and supply in the short run. Behaviour of firms and markets in the long run. Comparative statics for a competitive industry. Efficiency and perfect competition.

7. Firm behaviour and market structure: monopoly

Monopoly as a market structure. Profit maximization under monopoly. Monopoly power: sources and measure. Inefficiency of monopoly. Natural monopoly. Antitrust policy and regulation of monopoly. Price discrimination.

8. Firm behaviour and market structure: monopolistic competition and oligopoly

Monopolistic competition as a market structure. Product differentiation and role of advertising. Behaviour of firms in a market of monopolistic competition: short-run and long-run. Excess capacity and inefficiency.

Oligopoly as a market structure. Price wars and collusion. Kinked demand and sticky prices. Game theory: interdependence and strategic behaviour.

9. Factor markets

Derived demand for factors of production. Marginal revenue product and marginal factor cost: profit maximization.

Perfect competition at output and labour markets: marginal value product of labour and a firm's demand for labour. The demand curve for labour of a perfectly competitive industry. Supply of labour. Equilibrium in labour market. Perfect and imperfect competition in labour market. Wage differentials: discrimination and human capital. Unemployment and regulation in labour market. Demand and supply of capital. Equilibrium in capital market. Net present value and discounting. Interest rate.

10. Introduction to welfare economics

Perfect competition and Pareto efficiency. Equity and efficiency. Income distribution. Market failure. Externalities. Property rights and transaction costs. Public goods. Free-rider problem. Distortions and the second best. Scope for government intervention.

Assessment Methods / Grading

At the end of the course the students take the final test which looks like a half-size replica of APT in Microeconomics. It includes two sections: 1. Multiple choice section (30 questions, 45 minutes); 2. Free response section (1 problem, 45 minutes).

Recommended Reading

Main reading

1. Mankiw, N.G. Principles of Microeconomics. 6th edition. South-Western. 2009.

Additional reading

2. Begg, D., Fischer, S. and Dornbusch, R. Economics. 8th edition. McGraw Hill. 2005.

3. Dodge E.R. 5 steps to a 5. AP Microeconomics / Macroeconomics 2010 – 2011. McGraw-Hill, 2010.

Internet resources

1. The course Study Guide that includes lecture notes, presentations, quizzes and revision questions with answers is available on the web site of faculty of economics (MSU):

<http://www.econ.msu.ru/students/mfk/courses/IM/>

2. Web site of American College Board: <http://www.collegeboard.com/>