

UNIVERSITY OF CONNECTICUT
ECON 1201 (MICROECONOMICS)
SPRING 2012
INSTRUCTOR: Professor Paul Hallwood
My room: 116A Academic Building
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Lecture hours: TuTh 1:20PM - 2:35PM. Tuesday and Thursday.

Office hours: after class for one-hour or by appointment.

Textbook: Michael Parkin, *Microeconomics*, (Addison Wesley), 10th edition.

In economics topics build on each other and *it is advisable not to miss classes*. Think of microeconomics as a large jigsaw puzzle - if you want to make sense of it you need to play with all the pieces.

But microeconomics is easier than you think because you have been doing it all your life – making rational decisions that is.

Microeconomics is an analytical subject – *it teaches you to think* in a particular way. For this reason it is hard just to memorize the subject matter, you have to learn to think like an economist. An economist's motto could be 'there is no free lunch' – in making everyday choices as individuals, groups, firms, or branches of government, the thing that is chosen comes at the expense of something else that is given up. Microeconomics is the 'science of

choice' – how to make the best choices from the limited means available.

Here are two definitions of microeconomics: 'microeconomics studies the allocation of scarce resources between competing uses'. And "economics studies mankind in the ordinary business of life – particularly individual and social actions most closely associated with the attainment of the material requisites of life'. The point of microeconomics is to get you thinking from first principles about almost anything e.g., should you join the marines, should you not play on the varsity HS basketball team, should you do one last trick-or-treat up somebody's long drive way, should the law governing historic shipwrecks be changed, why do oil companies not do their own drilling, why are there no cod left on Georges Bank, why do firms hold inventories, should a firm raise its prices?

Examinations:

Your course grade will be calculated as follows:

	<u>% of grade</u>
1. 7 in-class short examinations 5% each (<i>best 6 count</i>)	30%
2. Mid-term:	30%
3. Final examination	40%
	<u>100%</u>

Standard classroom behavior. Please bear in mind that:

1. Classes and in-class exams begin *promptly* at 1:20 pm.
2. There are *no make-up exams* except in exceptional circumstances.
3. Please no coming and going during class.

(MID-TEM BREAK IS MONDAY MARCH 12TH TO FRIDAY MARCH 16TH)

Exam dates

- Jan 26th (Thursday)
- Feb 2nd (Thursday)
- Feb 16th (Thursday)
- Feb 23rd (Thursday)
- March 8th **MID-TERM EXAMINATION** (Thursday)
- March 29th (Thursday)
- April 12th (Thursday)
- April 24th (Tuesday)
- FINAL EXAMINATION:** Week beginning Monday April 30th

THE LECTURES: we will try to follow topics – move left to right and down the list:

TENTH EDITION -----chapter or page numbers-----

1	1, 2 (the econ problem)	2, 1 (what is econ?)
2	3 (S&D)	3 (S&D)
3	4 (elasticity)	5 (equity and efficiency)
4	6 (markets in action)	10 (parts of, organization of production)
5	11 (output and costs)	12 (perfect competition)
6	16 (public goods)	16 (public goods)
7	17 (econs of the environment)	429-431 (pricing non-renewable natural resources)
8	13 (monopoly)	15 (oligopoly)
9	18 (wage determination)	18 (pricing capital)
10	20 (uncertainty and information)	

SAMPLE EXAM PAPER

FINAL EXAMINATION

Please answer FOUR essay questions. You have TWO hours

- 1) Jack and Jill are the only producers of pales of water in the village of Old Rhyme. If they collude charging the villagers a high price they each earn a weekly profits of \$80. If either cheats, the cheat makes \$100, while the complier incurs a loss of \$35. If both producers charge the non-collusive low price each makes a profit of \$50.
 - a) What is the payoff matrix for this game?
 - b) Describe the dominant strategy for each player.
 - c) What is the Nash equilibrium of the game?
 - d) If this game is played many times, what might the outcome become? Why?

- 2) Discuss how wages are determined in a competitive labor market taking care to explain the factors that lie behind the labor demand and supply curves. Then explain the effect on the level of the wage of:
 - a) Workers put a lower value on leisure.
 - b) The price of the goods produced by labor falls
 - c) The price of capital goods falls.
 - d) The effect of a trade union on the relative wages of union and non-union workers

- 3) This question is about income differences:
 - a) Discuss how level of education, age, sex, and race help to explain differences in income between households.
 - b) Why do wages differ between jobs?
 - c) Discuss why, over the last 30 years, wage differentials between skilled and unskilled workers have widened.
 - d) Discuss how discrimination (by race, age, and sex) may explain why wage differentials between defined groups of people.
 - e) Explain under what conditions the types of discrimination discussed in part d) would not contribute to wage differences.

- 4) Please explain using relevant concepts
 - a) How voluntary exchange maximizes net welfare (i.e. achieves an efficient allocation of resources to an industry).
 - b) With what types of goods is a deadweight loss likely to arise? (Remember the matrix describing four different types of goods). Explain your answer.

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- 5) We have seen that markets under certain assumptions achieve 'efficiency' but is the efficient outcome necessarily equitable? In your answer please refer to 'utilitarianism', 'equality of opportunity', and the trade-off between efficiency and equity.
- 6) Please explain using graphs:
 - a) What sort of goods should be taxed?
 - b) What determines the size of a deadweight loss caused by a tax?
 - c) How a tax burden shared?
- 7) Explain
 - a) What it is a natural monopoly?
 - b) Describe some natural monopolies.
 - c) Explain why MS Windows has come to have the characteristic of a natural monopoly.
 - d) How do you think the law should treat natural monopolies? Explain your answer.
- 8) Carefully define the distinguishing characteristics of a public good. Then answer:
 - a) How the demand curve for a public good is constructed;
 - b) The concept of the optimal provision of a public good;
 - c) Why there may be a tendency for over-provision of a public good.
- 9) Here is a ragbag of questions. Please answer THREE of them.
 - a) Using the discounting equation explain why money today is worth more than money in five year's time.
 - b) Using a production possibility frontier distinguish between efficiency in production and allocative efficiency.
 - c) For one million hours labor the US can produce 6 airplanes or 10 ships while China can produce 4 airplanes or 8 ships. Which goods should the two countries specialize in producing? Explain your answer.
 - d) Assuming that clean water is a scarce resource, explain why it is better to allow the market to determine its allocation rather than having the government allocate much of it to a favored group.
- 10) Here is another ragbag of questions. Please answer THREE of them
 - a) Distinguish between equilibrium of the firm under monopolistic competition in the short-run and in the long-run. [Remember "monopolistic competition" is not the same as 'monopoly']
 - b) What is meant by the term 'market failure'. Give at least two examples.
 - c) What are negative externalities (i.e. external diseconomies)? Why are they a problem?
 - d) Thinking of oil, a non-renewable resource, what would be the effect on its current price and price trajectory if the Federal government required manufactures of sports utility vehicles to substantially increase the miles per gallon that they achieve.