

MACQUARIE
UNIVERSITY



FACULTY OF
BUSINESS AND ECONOMICS

ECON203 Microeconomic Analysis

Semester 1, 2010

Department of Economics

ECON203 Microeconomic Analysis

Year and Semester: 2010, Semester 1

Unit convenor: Glenn Jones

Prerequisites: (ECON110 and ECON111) or (admission to BBA and BBA103)

Corequisites: None

You should read this unit guide carefully at the start of semester. It contains important information about the unit. If anything in it is unclear, please consult one of the teaching staff in the unit.

ABOUT THIS UNIT

ECON203 Microeconomic Analysis is an intermediate-level unit in theoretical and applied microeconomics. It builds on the foundations laid in the 100-level economics units, and may in turn be seen as providing the insights and tools necessary for the study of more specialised areas in economics, accounting, finance and marketing at the 200- and 300-level. The unit places strong emphasis on developing analytical and theoretical skills as a means of encouraging rigorous and logical thinking about real-world economic questions.

Throughout this unit, a framework is developed from the standpoint of individual decision-makers that allows the economic behaviour of consumers, producers, markets and society as a whole to be analysed. Topics covered include consumer choice and the theory of demand; consumer welfare measurement; labour supply; inter-temporal consumption; choice under uncertainty; theory of the firm; production and cost theory; profit maximisation; perfect competition; monopoly; oligopoly; game theory and auctions; general equilibrium.

TEACHING STAFF

Convenor:

Glenn Jones, Room: E4A429
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Tutorial Staff:

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Clarification of specific points in lectures should be directed to Glenn Jones at the end of the lecture or in his consultation hours posted on the unit web page <http://learn.mq.edu.au>. In addition, your own tutor can assist you with more extensive questions regarding unit content. Consultation times for the lecturers and tutors will also be available on the unit web page. If you cannot contact your tutor or lecturer in person you should email them, using ECON203 as the subject of your email. Please ensure that you use your official Macquarie University email account. If you prefer to use another email account please have your student email forwarded to it. All enquiries concerning

the administration of the unit (including tutorial arrangements) should be addressed to Glenn Jones by email.

Students experiencing significant difficulties with any topic in the unit are strongly encouraged to seek assistance immediately.

CLASSES

- This unit provides 3 hours face-to-face teaching per week. It consists of 13 1 x 2 hour lectures and 12 1 x 1 hour tutorials. **(There are no tutorials in the first week of semester)**
- The timetable for lectures and tutorials can be found on the University web site at: <http://www.timetables.mq.edu.au/>

There are two streams of lectures each week at the following times and places:

Day Lectures

| | | |
|---------|---------------|-----------|
| Tuesday | 10.00 - 12.00 | E7B Mason |
|---------|---------------|-----------|

Evening Lectures

| | | |
|---------|---------------|-------|
| Tuesday | 18.00 - 20.00 | E7BT3 |
|---------|---------------|-------|

Day and evening lectures are given in parallel and students may attend either stream on a permanent or casual basis without informing the lecturer. Please note that if a lecture room is overfull, the lecturer may ask unseated students to leave. This is a requirement of University health and safety regulations. Lectures will be recorded using iLecture and lecture slides will be available on the unit web page at <http://learn.mq.edu.au>.

Please consult the Course Diary below for precise details of the currently scheduled lecture dates for the whole unit. During the semester, unforeseen circumstances may require the cancellation of some lectures and/or tutorials. Any changes will be announced as far as possible in advance both in lectures and on the unit website.

It is assumed that students will attend all lectures and tutorials. Students who miss lectures put themselves at a significant disadvantage for several reasons, including:

(i) Not all the material in the text is covered in the unit, and not all the material in the unit is covered in the text. In some places the text deals with issues in greater depth than is necessary for the unit, and in other places it doesn't go far enough. The lectures contain all the unit material taught at the level required for the assessment tasks, and are your guide to the unit content. The tutorials will demonstrate the way questions in microeconomics are approached.

(ii) The lectures and tutorials will include significant guidance about the style and content of the final exam and recommendations about study technique.

(iii) It is difficult (and often impossible) for staff to provide meaningful assistance to students outside class times on topics for which they did not attend the relevant lectures and tutorials.

REQUIRED AND RECOMMENDED TEXTS

Recommended Text:

Perloff, JM, (2008), Microeconomics, Theory and Applications with Calculus (1st Ed),
Pearson/Addison Wesley

The text is available for purchase at Co-op Bookshop. A small number are available on reserve in the library.

Unit materials:

Mason, C and Stone, L, 2008, Study Guide to accompany, Microeconomics, Theory and Applications with Calculus (1st Ed) by Perloff, JM., Pearson/Addison Wesley
Available for purchase at Co-op Bookshop bundled with the Perloff text.

In the text will be an access code and information that will enable you to use a free online study resource MyEconLab that is available with the related textbook Perloff, JM, (2008) Microeconomics, (5th Ed), Pearson/Addison Wesley. While this resource is not directly related to the Perloff text used in ECON203 it may be of use for students seeking extra material.

Supplementary General Texts

You may find it useful to see how the same material is treated in other intermediate microeconomic texts. The following is a list of supplementary textbooks that have previously been used in this unit. In particular students will find similarities to the treatment in Varian which was last used in this unit in 2008. The topic of inter-temporal consumption, which is the foundation of finance markets, is not covered adequately in Perloff. The treatment in the lectures will be close to that in Varian and students will find reference to that section helpful.

Intermediate

Varian, HR., (2006) *Intermediate Microeconomics: A Modern Approach*, (7th Ed), New York: Norton.

Eaton, BC., Eaton, DF. and Allen, DW, (2005) *Microeconomics*, (6th Ed) Toronto Canada: Pearson Prentice-Hall.

Frank, RH., (2006) *Microeconomics and Behaviour*, (6th Ed) Boston: McGraw-Hill.

Katz, ML. and Rosen, HS., (1994) *Microeconomics*, (2nd Ed) Boston: Irwin.

Mansfield, E. and Yohe, G., (2004), *Microeconomics*, (11th Ed), New York: Norton.

Schotter, A., (2003) *Microeconomics: A Modern Approach*, (3rd Ed) New Jersey: Prentice Hall.

Mathematical detail

Chiang, AC., (1984) *Fundamental Methods of Mathematical Economics*, (3rd Ed), New York: McGraw-Hill.

UNIT WEB PAGE

Lecture and tutorial material as well as up to date information concerning any aspect of the unit, including any changes to the schedule, will be available to students by logging on to Blackboard at <http://learn.mq.edu.au>.

The following information will be available on Blackboard:

| | |
|-------------------------------|---------------------------|
| • Unit Outline | • Announcements |
| • Lecture slides | • Online quizzes |
| • Results of Assessment tasks | • Contact details |
| • Consultation hours | • Other relevant material |

You are strongly encouraged to regularly visit the website and use it as a resource centre to assist with your learning.

If you are unable to access the website because you are not aware of or have forgotten your username and password, please contact the IT helpdesk located on Level 1 of the Library or call 9850 6500. The IT helpdesk will also be able to assist you with using Blackboard. Please note that there is also a help feature in Blackboard and you may refer to this instead for assistance in using Blackboard. If you have contacted the helpdesk in regard to your username and password and you

are still unable to login to Blackboard you should then email details of your problem to Prashan Karunaratne at prashan.karunaratne@mq.edu.au.

Please remember to log out when you have finished using Blackboard. Failure to do so could result in unauthorised access to your Blackboard account.

LEARNING OBJECTIVES AND OUTCOMES

At the completion of this unit you will familiar with the approach and methods of theoretical and applied microeconomics. You will have developed the insights and tools necessary for the study of more specialised areas in economics such as finance, actuarial studies, labour economics, health economics, industrial organisation and public economics. You will familiar with the generic process of microeconomic analysis focussing on the aims of individual decision-makers, (consumers and producers); how these objectives are constrained by the opportunities available to agents (budget constraints or market structures) and be able to evaluate alternative economic outcomes in terms of their normatively defined welfare economic properties (efficiency and equity). Detailed topics to which you will be able to apply this method include consumer choice and the theory of demand; consumer welfare measurement; labour supply; inter-temporal consumption; choice under uncertainty; theory of the firm; production and cost theory; profit maximisation; perfect competition; monopoly; oligopoly; game theory and auctions; general equilibrium.

In addition to the discipline-based learning objectives, all academic programs at Macquarie seek to develop students' generic skills in a range of areas. This unit will contribute to the development of skills in:

- Literacy, numeracy
- Self-awareness and interpersonal skills
- Critical analysis skills
- Problem-solving skills
- Creative thinking skills

LEARNIG AND TEACHING STRATEGY

This unit is taught as a mix of lectures and tutorials. The lectures are designed to provide the tools which can then be applied in tutorials. The tutorials comprise numerical problems and analytical questions and are detailed below in this document. There should be the opportunity to explore issues raised in lectures and to ask questions. The tutorials aim to improve understanding of microeconomic theory and policy.

Lectures – large group learning (2 hour each teaching week)

Lectures are intended to provide overviews of the conceptual framework and economic data that are critical to the core themes of the unit. Students are expected to read the relevant chapters before each lecture.

Independent learning – learning by doing (about 6 hours each teaching week and 9 hours each week during the 2-week mid-semester recess).

ECON203 relies heavily on independent learning where students read the relevant chapter, revise the lecture notes, prepare answers to the pre-set tutorial questions and extend themselves by doing additional reading, questions, exercises, problems.

Tutorials – small group learning (1 hour each teaching week **beginning in Week 2**)

Tutorials constitute a critical learning experience of this unit and students should attend them. The tutor will facilitate a highly student-centred discussion of answers to pre-set tutorial questions. A tutorial is also an active forum to present to the tutor difficulties you encountered when preparing for the pre-set tutorial questions. Ask your tutor questions and further guidance on how to approach questions. Students are expected attempt the tutorial questions before each tutorial.

Relationship between Assessment and Learning Outcomes

The modes of assessment are designed to ensure that students become familiar with the theoretical models that form the body of contemporary microeconomics and that they apply microeconomic models to various economic problems and issues. The assignment will also ensure that the students understand the associated empirical implications and policy issues.

The components of assessment in this course are as follows:

(1) Mid-semester test 30% (10% multiple choice and 20% short answer)

A 90-minute test (including 25 multiple choice questions and 2 short-answer questions) will be held in place of the regular lecture in Week 7, immediately following the semester break. This test is an indication of the form of the final examination. A non-programmable calculator is allowed in the test.

(2) Online quizzes 10% (2.5% each quiz)

There will be 4 online quizzes in this course, each containing 20 multiple choice questions randomly selected from a test bank and each student will most likely face a slightly different set of questions. The quizzes will be accessed online through the unit web page on Blackboard at <http://learn.mq.edu.au>. Each quiz will be available until midnight the day before the following quiz and then it will be closed. The final quiz will be closed at midnight on the final day of teaching. All students must access and complete the quiz in the set time period.

Students must be aware that IT failures occur and that with large numbers of students, congestion can at times limit access. It is the student's responsibility to plan for these possibilities and completion of the quiz soon after release is strongly advised. While catastrophic system failures will be taken account of, events such as system outage with three hours to go will not.

| Quiz | Released | Availability |
|------|----------|-------------------------|
| 1 | Week 3 | 12pm 09/03 – 12pm 29/03 |
| 2 | Week 6 | 12pm 30/03 – 12pm 03/05 |
| 3 | Week 9 | 12pm 04/05 – 12pm 24/05 |
| 4 | Week 12 | 12pm 25/05 – 12pm 04/06 |

(3) Final Examination 60% (20% multiple choice and 40% short answer)

A 3 hour final examination for this unit will be held during the University Examination period. The examination will contain a multiple choice section with an indicative time requirement of 1 hour and short answer question section with an indicative time of 2 hours. Marks awarded for these sections will be in proportion to the indicative times.

The conditions for the requesting and granting of requests for special consideration in all elements of the assessment are set out below.

REQUIREMENTS TO PASS THE UNIT

The final grade will be determined after consideration of performance in all aspects of the course.

Under the current grading system, a standardised numerical grade (SNG) will be awarded together with a band grade HD, D, Cr, P, PC, or F.

It is important for students to note that the SNG is NOT the weighted aggregate of the raw marks for the above three assessment components. It is rather a detailed grade that is chosen from 0 to 100 based on other criteria as well as the raw marks. For instance, the SNG for a student who gains a raw aggregate mark of 55 but fails the final would be lower than 45 indicating that he/she fails the unit.

As such, an SNG of say 73 or 74 does NOT mean that the student's aggregate mark is one or two marks below the threshold for a D. It means that his/her work and performance in the unit is of predominantly good quality and did better than other students in the Cr band but not quite of superior quality needed for a D.

Failure to attend any of the assessment components without the submission of an Application for Special Consideration on the grounds of illness or unavoidable mishap together with the required supporting documentation will result in a mark of zero for the assessment.

If you wish to advise of your absence from quizzes, mid-semester tests or examination for reason of illness or unavoidable mishap you must fill out an Application for Special Consideration. The forms are available from the Student Enquiry Service or online at <http://www.reg.mq.edu.au/Forms/APSCon.pdf>. The completed form with appropriate supporting documentation must be submitted to the Student Enquiry Service, not to the Faculty of Business and Economics.

For absence related to illness you will need to include an EFS Professional Authority Advice Form. Students granted special consideration for a quiz will not be able to resit the quiz. Their assessment on the remaining components of the course will be scaled up proportionally. Students granted Special Consideration for the missed mid semester test will be required to sit the test at a later time. Granting of Special Consideration for the final exam will permit students to sit for a supplementary examination.

More detail on the policy and required documentation can be found at http://www.mq.edu.au/policy/docs/s/procedure_specialconsideration.htm

The University Examination period in First Semester 2010 is from 07/06/2010 to 25/06/2010.

You are expected to present yourself for examination at the time and place designated in the University Examination Timetable. The timetable will be available in Draft form approximately eight weeks before the commencement of the examinations and in final form approximately four weeks before the commencement of the examinations.

<http://www.timetables.mq.edu.au/exam>

You are advised that it is Macquarie University policy not to set early examinations for individuals or groups of students. All students are expected to ensure that they are available until the end of the teaching semester, the final day of the official examination period.

The only exception to not sitting an examination at the designated time is because of documented illness or unavoidable disruption. In these circumstances you may wish to consider applying for Special Consideration. Information about unavoidable disruption and the special consideration process is available at http://www.mq.edu.au/policy/docs/s/procedure_specialconsideration.htm

If a Supplementary Examination is granted as a result of the Special Consideration process the examination will be scheduled after the conclusion of the official examination period. Students are advised that if they are granted a Supplementary Examination they are expected to present at the scheduled time and that requests for secondary supplementary examinations are not normally considered.

PLAGIARISM

The University defines plagiarism in its rules: "Plagiarism involves using the work of another person and presenting it as one's own." Plagiarism is a serious breach of the University's rules and carries significant penalties. You must read the University's practices and procedures on plagiarism. These can be found in the *Handbook of Undergraduate Studies* or on the web at: <http://www.student.mq.edu.au/plagiarism/>

The policies and procedures explain what plagiarism is, how to avoid it, the procedures that will be taken in cases of suspected plagiarism, and the penalties if you are found guilty. Penalties may include a deduction of marks, failure in the unit, and/or referral to the University Discipline Committee.

STUDENT SUPPORT SERVICES

Macquarie University provides a range of Academic Student Support Services. Details of these services can be accessed at <http://www.student.mq.edu.au>.

ECON203 UNIT DIARY 2010

| Week | Lecture Date | Lecture Number | Perloff Chapter | Lecture Topic | Tutorial Topic |
|---------------------------|---------------------|-----------------------|------------------------|---|---|
| 1 | Feb 23 | 1, 2 | 3,4 | Introduction, preferences, utility and budget constraints | No tutorials week one |
| 2 | March 2 | 3, 4 | 4 | Optimal choice and demand functions | 1. Preferences, utility and budget constraints |
| 3 | March 9 | 5, 6 | 5 | Consumer welfare | 2. Optimal choice and demand functions |
| | | QUIZ 1 | | | |
| 4 | March 16 | 7, 8 | 5 | Labour supply, saving | 3. Consumer welfare |
| 5 | March 23 | 9, 10 | 6, 7 | Production and cost functions | 4. Labour supply, saving |
| 6 | March 30 | 11, 12 | 8,9 | Perfect competition, supply and producer welfare | 5. Production and cost functions |
| | | QUIZ 2 | | | |
| MID SEMESTER BREAK | | | | | |
| 7 | April 20 | | TEST | | 6. Perfect competition, supply and producer welfare |
| 8 | April 27 | 13, 14 | 10, | General equilibrium | 7. Feedback on test and general revision |
| 9 | May 4 | 15,16 | 11, 13 | Imperfect competition | 8. General equilibrium |
| | | QUIZ 3 | | | |
| 10 | May 11 | 17, 18 | 14, | Game theory | 9. Imperfect competition |
| 11 | May 18 | 19, 20 | 16 | Uncertainty | 10. Game theory |
| 12 | May 25 | 21, 22 | 17 | Externalities and public goods | 11. Uncertainty |
| | | QUIZ 4 | | | |
| 13 | June 1 | 23, 24 | 18,19 | Asymmetric information contracts and moral hazard | 12. Externalities and public goods |

ECON203 TUTORIAL PROGRAM

The Tutorial Program in ECON203 has three main aims:

- to explain and extend some of the material covered in lectures
- to focus attention on a problem solving approach to the analysis of microeconomic questions
- to encourage discussion of economic issues.

Tutorials are an important complement to the attendance at lectures and private study. They provide a further means of understanding the course material, and provide useful feedback on your own progress and allow you to learn from the experience of others. As evidence from past performance suggests that there is a high correlation between poor overall performance and poor tutorial attendance.

There are 12 tutorials in total, and the tutorial program begins in week two of the semester. One tutorial will be devoted to giving detailed feedback on your performance and that of the class as whole in the mid semester test. While it may not be possible to return your marks for this test before the tutorial, a copy of the test questions and answers will be available on the website prior to the tutorial.

The material in the remaining 11 tutorials is drawn from end-of-chapter questions and problems from Perloff. There may not be enough time for tutors to address all of the questions in tutorials. If you wish an explanation to a particular question you should bring this to the attention of your tutor at the start of the tutorial. He or she will try to assess where most attention is required for the class as a whole. Remember tutorials are a dialogue, not a lecture. Student participation is extremely important in the learning process.

This material discussed in tutorials is intended to spark detailed questions but it represents only a part of the feedback on your understanding of the material covered in ECON203. The Study Guide provides answers to all the types of questions that it contains and the various end-of-chapter questions and problem in the text also have answers provided. In addition there is extensive detailed discussion of some questions provided at www.aw-bc.com/perloff . As a result you have no shortage immediate feedback on your understanding of the topics. If you require further assistance with this material you should not hesitate to discuss it with you tutor or lecturer.

TUTORIAL 1 Week beginning March 1

Chapter 3 Questions 1, 6, 7, 11, 12
Chapter 3 Problems 17, 20, 22, 23

TUTORIAL 2 Week beginning March 8

Chapter 4 Questions 9, 15, 17
Chapter 3 Problems 24, 31, 32
Chapter 4 Problems 22, 23

TUTORIAL 3 Week beginning March 15

Perloff Chapter 5
Questions 4, 16
Problems 32, 33, 35

TUTORIAL 4 Week beginning March 22

Perloff Chapter 5
Questions 18, 20, 22
Problems 29, 31, 37

TUTORIAL 5 Week beginning March 29

Perloff Chapter 6
Questions 8, 16
Problems 23, 26, 31

Perloff Chapter 7
Questions 6, 8, 9, 16
Problems 25, 30, 40

TUTORIAL 6 Week beginning April 20

Perloff Chapter 8
Questions 4, 11, 24
Problems 32, 34

Perloff Chapter 9
Questions 6, 15, 28
Problems 31, 32, 35, 36

TUTORIAL 7 Week beginning April 27

Feedback on test and general revision

TUTORIAL 8 Week beginning May 3

Perloff Chapter 10
Questions 10, 12, 13, 14, 16, 18
Problems 19, 20, 23, 24, 25

TUTORIAL 9 Week beginning May 10

Perloff Chapter 11
Questions 1, 2, 12
Problems 23, 35, 38, 40

Perloff Chapter 13
Questions 1, 6, 14, 17
Problems 18, 19, 20, 27

TUTORIAL 10 Week beginning May 17

Perloff Chapter 14
Questions 1, 4, 5, 7, 14, 15, 18
Problems 23, 24, 26

TUTORIAL 11 Week beginning May 24

Perloff Chapter 16

Questions 1, 4, 6, 7, 9, 10

Problems 14, 15, 23, 26 27

TUTORIAL 12 Week beginning May 31

Perloff Chapter 17

Questions 1, 4, 5, 8, 13

Problems 22, 23, 24, 25, 26