MACQUARIE UNIVERSITY

Division of Economic and Financial Studies

ECON822 MICROECONOMICS 2007
Aims of the Course

Welcome to studies in the Postgraduate Diploma in Applied Economics. The two courses ECON822 and ECON823 together survey the main ideas and concepts involved in modern economics, and provide students with an understanding of how the economy works, what type of problems economists attempt to solve, and how they set about trying to solve them. Whereas ECON823 deals mainly with macroeconomics, that is with the behaviour of the economy as a whole, this course is primarily concerned with the analysis of individual decision making units, and the behaviour of firms and industries in the economy, that is, with microeconomics.

Lectures and Tutorials

There are three teaching hours per week throughout the semester. The bulk of the class time will be devoted to lectures but time will be set aside for tutorial sessions. These tutorial sessions are designed to review and to extend the work covered in lectures.

The lecturer responsible for the teaching of this course is:

Mr Allan McHarg  (E4A-417 telephone 9850 8492)

Enquiries and Problems

(a) Academic

Members of the academic staff are willing to assist you with problems arising from your courses. Problems relating to difficulties you might be having in understanding material in lectures, readings or workshops should be directed to the lecturer in charge of the particular course.

(b) Personal

If your studies are being affected by personal problems, or if you are having difficulty in adjusting to University life, contact the Student Counselling Service which provides assistance with a very wide range of problems.
(c) Special Consideration

If you are unfortunate enough to suffer accident, illness, or any other disturbance which affects your work, you should apply to have account taken of this in the assessment of your performance. To do this, you should write to the Registrar immediately the problem arises, stating:

(a) the courses you are enrolled in;

(b) details of any work affected or missed;

(c) the nature of the problem, including evidence (e.g., medical certificate/s where applicable).

Assessment

Assessment in the course will be as follows:

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<td>Mid-semester Test</td>
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Lecture Outline

1. Introduction

The economic problem and the microeconomic approach; an overview of the price mechanism; reasons for government intervention.

2. Supply and Demand Analysis

The demand and supply functions; applications of supply and demand analysis; price elasticity of demand; income elasticity and cross elasticity of demand.

3. The Theory of Consumer Behaviour  (The Analysis of Demand in More Detail)

Cardinal and ordinal utility; choice and constraints; derivation of the consumer's demand curve; applications of indifference curve analysis including the theory of exchange and the theory of comparative advantage.
4. **The Theory of Producer Behaviour (The Analysis of Supply in More Detail)**

Theory of production: the production function and the individual firm; theory of costs of production: the short run situation; theory of costs of production: the long run situation.

5. **Market Structures**

Market structures and the firm's revenue conditions; short run equilibrium of the firm and industry in perfect competition; long run equilibrium of the firm and industry in perfect competition; pure monopoly; applications of the monopoly model; monopolistic competition; oligopoly; evaluation: perfect versus imperfect market structures.

6. **Introduction to Welfare Economics**

Efficiency and equity.

7. **Economics of Information**

(a) Markets dealing with uncertainty; the market for insurance; the utility analysis of risk and the economics of insurance markets.

(b) The economics of information and market failure.

(c) The economics of information and the theory of the firm; adverse selection and moral hazard, signalling and screening, teamwork, shirking and monitoring, issues in corporate governance.

8. **Other Cases of Market Failure**

Externalities and public goods.

9. **Introduction to Microeconomic Policy**

Microeconomic reform in Australia, issues concerning competition policy, regulation/deregulation, nationalisation/privatisation.

**Books on Microeconomics**

(a) **Set Text**

The book prescribed for this course is:

(b) Introductory References


(c) More Advanced References

Other useful references which cover the course material but at a more advanced level are listed below.


**Reading Guide**

**Lecture No.**

1. **Introduction**

   Frank - Chapter 1

   Pindyck and Rubinfeld- Chapter 1

   Maddala and Miller – Chapter 1

   Swann and McEachern - Chapters 1, 2 and 3

   Sloman and Norris – Chapter 1

   Sloman - Chapter 1

   Jackson *et al.* – Chapters 1-3 and 5-6

   Begg, Fischer, Dornbusch – Chapters 1, 2 and 4

   McTaggart, Findlay, Parkin - Chapters 1-3.


   Eckert and Leftwich - Chapters 1 and 2.

2. **Demand, Supply and the Market**

   Frank- Chapter 2,Chapter 4 pages 124-141 and 147-150, Chapter 5 pages 160-164 and 170-172, Chapter 12 pages 414-421

   Pindyck and Rubinfeld- Chapter 2

   Maddala and Miller – Chapters 2 and 3

   Swann and McEachern - Chapters 4 and 6
3. **The Theory of Consumer Behaviour**

Frank- Chapters 3 and 4, Chapter 16 pages 587-597

Pindyck and Rubinfeld- Chapters 3 and 4

Maddala and Miller – Chapters 4 and 5

Swann and McEachern – Chapter 7

Sloman and Norris – Chapters 4 and 19

Sloman - Chapters 4 and 23

Jackson et al. – Chapters 24 and 34

Begg, Fischer, Dornbusch – Chapters 6 and 33

McTaggart, Findlay, Parkin - Chapters 7 and 8

Eckert and Leftwich - Chapters 5-7

4. **The Theory of Producer Behaviour**

Frank- Chapters 9 and 10

Pindyck and Rubinfeld- Chapters 6 and 7

Maddala and Miller – Chapters 6 and 7

Swann and McEachern - Chapter 8

Sloman and Norris – Chapter 5
Sloman - Chapter 5
Jackson et al. – Chapters 25
Begg, Fischer, Dornbusch – Chapter 8
McTaggart, Findlay, Parkin - Chapters 9 and 10
Eckert and Leftwich - Chapters 9 and 10.
Awh - Chapters 7-10

5.(A) **Market Structures and the Firm's Revenue Conditions**

Jackson et al. – Chapter 22
Eckert and Leftwich - Chapter 8
Awh - Chapter 11

(B) **Perfect Competition**

Frank - Chapter 11
Pindyck and Rubinfeld- Chapters 8 and 9
Maddala and Miller – Chapter 10
Swann and McEachern - Chapter 9
Sloman and Norris – Chapter 6
Sloman - Chapter 6
Jackson et al. – Chapter 26
Begg, Fischer, Dornbusch – Chapter 9
McTaggart, Findlay, Parkin - Chapter 11
Eckert and Leftwich - Chapter 11
Awh – chapters 12 and 13
(C) **Pure Monopoly**

Frank- Chapter 12

Pindyck and Rubinfeld- Chapter 10 and 11

Maddala and Miller – Chapter 11

Swann and McEachern - Chapter 10

Sloman and Norris – Chapter 6

Sloman - Chapter 6

Jackson *et al.* – Chapter 27

Begg, Fischer, Dornbusch – Chapters 7 and 9

McTaggart, Findlay, Parkin – Chapter 12

Eckert and Leftwich - Chapter 12

Awh - Chapter 14

(D) **Monopolistic Competition**

Frank- Chapter 13

Pindyck and Rubinfeld- Chapter 12

Maddala and Miller – Chapter 13

Swann and McEachern - Chapter 11

Sloman and Norris – Chapter 7

Sloman - Chapter 7

Jackson *et al.* – Chapter 28

Begg, Fischer, Dornbusch – Chapter 10

McTaggart, Findlay, Parkin - Chapter 13

Eckert and Leftwich - Chapter 13
(E) **Oligopoly**

Frank- Chapter 13

Pindyck and Rubinfeld- Chapters 12 and 13

Maddala and Miller – Chapter 13

Swann and McEachern - Chapter 11
Sloman and Norris – Chapter 7

Sloman - Chapter 7

Jackson et al. – Chapter 29

Begg, Fischer, Dornbusch – Chapter 10

McTaggart, Findlay, Parkin – Chapter 13

Eckert and Leftwich - Chapter 13

Awh – Chapter 15

(F) **Evaluation: Perfect Versus Imperfect Market Structure**

Sloman - Chapter 11

Sloman and Norris – Chapter 10


6. **Introduction to Welfare Economics**

Frank-Chapter 16

Pindyck and Rubinfeld- Chapter 16

Maddala and Miller – Chapter 9 and 18

Nicholson – Appendix to Chapter 13

Miller and Fishe – Chapter 16

Pindyck and Rubinfeld – Chapter 16

Begg, Fisher, Dornbusch – Chapter 15
7. **Economics of Information**

**(A)**  
**The Market for Insurance**

Frank- Chapter 6, pages 198-214

Pindyck and Rubinfeld- Chapter 5


**(B)**  
**The Economics of Information**

Frank- Chapter 6, pages 187-198

Pindyck and Rubinfeld- Chapter 17


**(C)**  
**The Economics of Information and the Theory of the Firm**


8. Other Cases of Market Failure: Externalities and Public Goods

Frank - Chapter 17 and Chapter 18 pages 647-656
Pindyck and Rubinfeld - Chapter 18
Maddala and Miller – Chapter 19
Swann and McEachern – Chapters 15 and 16
Sloman and Norris – Chapter 10
Sloman – Chapter 11
McTaggart, Findlay, Parkin - Chapters 16 and 18
Begg, Fischer, Dornbusch – Chapter 15
Miller and Fishe – Chapter 17
Nicholson – Chapter 16
Introduction to Microeconomic Policy

Swann and McEachern, Chapters 13 and 14

Sloman and Norris – Chapter 11

Taylor, Moosa, Cowling – Chapter 16

McTaggart, Findlay, Parkin – Chapter 19

Begg, Fischer, Dornbusch – Chapter 18

