



MACQUARIE UNIVERSITY

Division of Economic and Financial Studies

ECON822 MICROECONOMICS 2007

MACQUARIE UNIVERSITY
SCHOOL 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:

	%
Mid-semester Test	10
Compulsory Assignment	20
Final Examination	<u>70</u>
	<u>100</u>

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:

Frank, R.H., *Microeconomics and Behaviour*, McGraw-Hill Irwin, New York 6th edition 2006

(b) Introductory References

- Swann, M. and McEachern, W.A., *Microeconomics: a Contemporary Introduction*, Nelson, Melbourne, 2001 (Australian edition).
- Sloman, J. and Norris, K., *Microeconomics*, Addison Wesley, Sydney, 1999.
- Sloman, J., *Economics*, Prentice-Hall, London, 3rd edn., 1997.
- Jackson, J., McIver, R., McConnell, C. and Brue, S., *Microeconomics*, McGraw-Hill, Sydney, 5th edn., 1998.
- Begg, D., Fischer, S. and Dornbusch, R., *Economics*, McGraw-Hill, London, 5th edn., 1997.
- McTaggart, D., Findlay, D. and Parkin, M., *Microeconomics*, Addison-Wesley, Melbourne, 3rd edn., 1999.
- Taylor, J.B., Moosa, I. And Cowling B., *Economics: Australian Edition*, Jacaranda Wiley, Brisbane, 1999.

(c) More Advanced References

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

- Pindyck, R.S. and Rubinfeld, D.L., *Microeconomics*, Prentice Hall , 5th edition, 2001
- Eckert, R.D. and Leftwich, R.H., *The Price System and Resource Allocation*, The Dryden Press, New York, 10th edn. 1988.
- Awh, R.Y., *Microeconomics: Theory and Applications*, John Wiley and Sons, New York, 1976.
- Browning, E.K. and Zupan, M.A., *Microeconomic Theory and Applications*, Addison-Wesley, New York, 6th edn. 1999.
- Maddala, G.S. and Miller, E., *Microeconomics: Theory and Applications*, McGraw Hill Book Company, New York, 1989.
- Miller, R.L. and Fische, P.H., *Microeconomics: Price Theory in Practice*, Harper Collins, New York, 1995.
- Maurice, S.C. and Phillips, O.R., *Economic Analysis: Theory and Application*, Irwin Homewood, Illinois, 3rd edn., 1978.
- Hirschleifer, J., *Price Theory and Applications*, Prentice-Hall, New York, 3rd edn., 1984.
- Pashigian, B.P., *Price Theory and Applications*, McGraw-Hill, New York, 2nd edn., 1998.

Schotter, A., *Microeconomics: A Modern Approach*, Harper Collins, New York, 1994.

Nicholson, W., *Intermediate Microeconomics and its Application*, The Dryden Press, Fort Worth, Texas, 7th edn., 1997.

Mansfield, E., *Microeconomics: Theory/Applications*, Norton and Company, New York, 8th edn., 1994.

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.

Collins *et al.* *Modern Australian Economics: Theory and Policy*, Longman Cheshire, Melbourne, 1984, pp. 2-17.

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

Sloman and Norris – Chapters 2 and 3

Sloman - Chapters 2 and 3

Jackson *et al.* – Chapters 4 and 23

Begg, Fischer, Dornbusch – Chapters 3 and 5

McTaggart, Findlay, Parkin - Chapters 4-7.

Eckert and Leftwich - Chapters 3 and 4.

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

Collins *et al. Modern Australian Economics: Theory and Policy*, Longman Cheshire, Melbourne, 1984, pp. 57-60.

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 Fische – 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

G.S. Maddala and E. Miller, *Microeconomics: Theory and Applications*, McGraw Hill Book Company, New York, 1989, Chapter 21.

E.L. Grinols, *Microeconomics*, Houghton-Mifflin Company, Boston, 1994, Chapter 15.

A.T. Denzau, *Microeconomic Analysis – Markets and Dynamics*, Irwin, Moston, 1992, Chapter 13.

(B) The Economics of Information

Frank- Chapter 6, pages 187-198

Pindyck and Rubinfeld- Chapter 17

D.N. Hyman, *Modern Microeconomics – Analysis and Applications*, Irwin Boston, 3rd edn. 1993, Chapter 13.

R.S. Pindyck and D.L. Rubinfeld, *Microeconomics*, Chapter 17.

E.K. Browning and M.A. Zupan, *Microeconomic Theory and Applications*, Harper Collins College Publishers, 5th edn. 1996, New York, Chapter 15.

M.L. Katz and H.S. Rosen, *Microeconomics*, Irwin, Boston 2nd edn. 1994, Chapter 16.

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

D.A. Hay and D.J. Morris, *Industrial Economics and Organisation – Theory and Evidence*, Oxford University Press, New York, 1991, Chapter 7.

M.Moschandreas, *Business Economics*, Routledge, London, 1994, Chapter 3.

R.L. Miller and R.P.H. Fishe, *Microeconomics – Price Theory in Practice*, Harper Collins College Publishers, New York, 2nd edn. 1994, Chapter 2.

D.W. Carlton and J.M. Perloff, *Modern Industrial Organisation*, Harper Collins College Publishers, New York, 2nd edn. 1994, Chapter 2.

M. Ricketts, *The Economics of Business Enterprise*, Harvester Wheatsheaf, London, 2nd edn. 1994, Chapter 2.

D.F. Greer, *Industrial Organisation and Public Policy*, Macmillan Publishing Company, New York, 3rd edn. 1992, Chapter 3.

McEachern, W.A., *Microeconomics - A Contemporary Introduction - Fourth Edition*, South-Western Publishing Company, Ohio 1997, Chapter 15.

J.A. Brickley, C.W. Smith and J.L. Zimmerman, *Managerial Economics and Organisational Architecture*, Irwin, Chicago, 1997, Chapter 2.

H. Demsetz, *The Economics of the Business Firm – Seven Critical Commentaries*, Cambridge University Press, Cambridge, 1995, Chapter 1.

R.H. Coase, *The Firm the Market and the Law*, University of Chicago Press, Chicago, 1988, Chapters 1 and 2.

M.R. Baye, *Managerial Economics and Business Strategy*, Irwin, 2nd edn. 1997, Chicago, Chapter 6.

W. Nicholson, *Intermediate Microeconomics and its Applications*, The Dryden Press, Florida, 7th edn. 1997, Appendix to Chapter 7.

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 Fische – Chapter 17

Nicholson – Chapter 16

9. 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

Domberger, S. and Piggott, J. – Privatisation Policies and Public Enterprise: A Survey, *Economic Record*, vol. 62, no. 177, June 1986, pp. 145-162.

Clark, D. *Microeconomic Reform* – Chapter 8 in Kriesler, P. (ed.) *The Australian Economy – The Essential Guide*, Allen and Unwin, Sydney, 1995.

Forsyth, P., A Perspective on Microeconomic Reform – Chapter 1 in Forsyth, P. (ed.) *Microeconomic Reform in Australia*, Allen and Unwin, Sydney, 1992.