MACQUARIE UNIVERSITY

Division of Economic and Financial Studies

ECON 111 MICROECONOMIC PRINCIPLES
SEMESTER 2 2008

UNIT OUTLINE

CIRCULAR 1

GENERAL INFORMATION AND
LECTURE OUTLINE
Contents

1. Aims of the Unit ........................................... 2
2. Online Material ............................................ 2
3. ECON111 and Concurrent Studies .......................... 2
4. Staff ................................................................ 2
5. Lectures .......................................................... 3
6. Workshops ....................................................... 4
7. Assessment ....................................................... 5
8. Enquiries and Problems ...................................... 8
9. Withdrawal from the Unit .................................... 9
10. Library and ERIC .............................................. 9
11. Societies ......................................................... 9
12. Lecture Outline ............................................... 10
13. Course Diary 2007 .......................................... 12
15. Lecture Reading Guide ..................................... 15

Students can log on to the web site for ECON111 from learn.mq.edu.au. All the information in this handout is provided on the web site.
1. **Aims of the Unit**

Welcome to Microeconomic Principles 111. The two units ECON110 and 111 together aim to provide an introduction to the main ideas and concepts involved in modern economics, and attempt to 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 ECON110 dealt mainly with macro-economics, ECON111 is primarily concerned with the analysis of individual decision making units, and the behaviour of firms and industries in the economy, i.e. with microeconomics.

2. **Online Material**

The unit web site provides basic course information such as that contained in this handout. This web site can be accessed via learn.mq.edu.au.

3. **ECON111 and Concurrent Studies**

Modern economics increasingly uses mathematics as an aid to analysis. We draw your attention to the expectation that students entering core 100 level units in economics have qualifications in mathematics at least equal to HSC mathematics Performance Band 2 or Extension 1 or Extension 2. If you have not achieved this level or equivalent, you must complete 3 credit points in the range MATH123-MATH136 **before** any core 200 level courses in economics can be undertaken.

4. **Staff**

The following members of staff are involved in the teaching of ECON111:

(a) **Lectures**

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<thead>
<tr>
<th>Name</th>
<th>Room</th>
<th>Phone Ext.</th>
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<tbody>
<tr>
<td>Dr Michael Dobbie</td>
<td>E4A 416</td>
<td>8502</td>
</tr>
<tr>
<td>(Lecturer in Charge)</td>
<td></td>
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<tr>
<td>Assoc Professor Tony Bryant</td>
<td>E4A 407</td>
<td>8465</td>
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<tr>
<td>Mr Allan McHarg</td>
<td>E4A 417</td>
<td>8492</td>
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(b) **Workshops**

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<tr>
<td>Dr Michael Dobbie</td>
<td>E4A 416</td>
<td>8502</td>
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<tr>
<td>Dr Stephane Mahuteau</td>
<td>E4A 528</td>
<td>8489</td>
</tr>
<tr>
<td>Mr Allan McHarg</td>
<td>E4A 417</td>
<td>8492</td>
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5. Lectures

There are three lectures per week throughout the second semester. You are strongly encouraged to attend the lectures so that the analytical content of the subject can be outlined and a basis provided for your reading and workshop preparation. It is important for you to recognise however, that lectures should be considered as a supplement to, rather than a substitute for, your study of the set texts. For details of the subject matter of lectures, see the Lecture Outline and for dates of lectures see the Course Diary, both provided in this circular.

There are four streams of lectures, i.e. the same series of lectures of three per week is delivered four times. To avoid problems arising from the lack of perfect synchronisation between the various streams, is it strongly advisable that you stay with your particular stream for the whole of the semester.

Lectures are held at the following times:

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<th>Tuesday</th>
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<th>Thursday</th>
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A word about the Macquarie Theatre. The acoustics in this theatre are quite poor, and students sitting near the back may have difficulty hearing. In these circumstances it is a matter of both courtesy and efficiency that only those students who wish to listen to the lecture should attend; those preferring to converse with their friends should stay outside. We seek your cooperation in this matter.

As you are aware the number of students in this course is very large. This puts great pressure on the capacity of the lecture theatres. For fire safety reasons, students are not permitted to sit on the steps or in the aisles. Lectures will not commence if fire safety regulations are being contravened.
6. Workshops

Workshops are designed to review and to extend the work covered in lectures. In general each workshop will cover a particular topic, and will lag a week or so behind the coverage of the same topic in lectures. The questions and exercises to be covered in workshops are included in a separate document.

In order to derive full benefit from the workshops, these exercises should be attempted before the relevant workshop session and this will involve substantial review of the appropriate theory. The success of the workshop system depends on this preparation being undertaken.

For each workshop group there will be ten meetings during the course. Workshops commence in the fourth week of the semester i.e. the week beginning Monday 25 August 2008. There will be no workshop meetings during weeks 1 to 3 of the semester (refer to the Course Diary).

In the first meeting of your group, your tutor will give you details of how to contact him/her if you need assistance outside of workshop times. Please ensure at your first workshop that you establish the name of your tutor and the number of your workshop group. On the major assignment that you submit for marking, you will be required to write in your tutor’s name and the number of your workshop group. Your marked assignment will be returned to you via one of your regular workshop sessions. There will, however, be considerable delay in the return of your work where both the name of your tutor and the number of your workshop group are not correctly recorded.

Workshop groups were allocated via the on-line system at the time of enrolment in ECON 111.
7. **Assessment**

Assessment in the unit will be as follows: %

<table>
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<tr>
<th>Assessment</th>
<th>Percentage</th>
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<tr>
<td>Compulsory Multiple Choice Test (Thursday 18/9/2008)</td>
<td>10</td>
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<tr>
<td>Compulsory Assignment (due Monday 20/10/2008)</td>
<td>15</td>
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<tr>
<td>Final examination</td>
<td>75</td>
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(a) **Compulsory Multiple Choice Test**

A multiple-choice test will be held during your normal lecture time on **Thursday, 18 September 2008**. This test will be of forty minutes duration and will consist of twenty multiple choice questions; these questions will be drawn from the material covered in lectures up to and including the “Theory of Costs of Production: The Long Run Situation” (i.e. lectures 1-18). The test will account for 10% of the total marks used to assess your grade for the course.

**Attendance at the test is compulsory.** If you fail to attend the test you will be awarded a zero mark and will be deemed to have not satisfied the course requirements i.e. you cannot pass the course. Students who experience **serious misadventure** and are unable to attend the test should contact Dr Michael Dobbie – E4A-416 (phone 9850 8502) and provide full documentation explaining their non-attendance. As a matter of justice to all students, such documentation will be very carefully considered and inconsequential or flimsy excuses will be rejected outright. See page 41 of the 2008 *Handbook of Undergraduate Studies* for a definition of unavoidable disruption to studies and the circumstances which do **not** fall within the boundaries of this definition.

(b) **Compulsory Assignment**

An assignment worth 15% of the total marks allocated for assessment is required to be submitted on or before 7.30 pm **Monday, 20 October, 2008**. This assignment is an integral part of the course requirements. A student’s failure to submit the assignment means that course requirements will not have been satisfied and a fail grade in ECON111 will be automatically recorded for that student notwithstanding the adequacy of the student’s academic performance in other segments of the course.

The assignment questions will be distributed immediately prior to the September vacation period. The completed assignment should be deposited in the course assignment box which is located at ERIC, E4B-106.

The date set down for submission of this assignment is a **final date**. **Extensions of time for the submission of this assignment will be granted only in cases of serious illness or other exceptional circumstances.** Application for extension of time in such cases must be made in writing to Dr Michael Dobbie, Room E4A 416. Penalty marks will be imposed for the unauthorised late submission of this assignment.

**Note that on the cover page of the assignment you must include your student number.** This is an important requirement for a course involving a large number of students.
Students are also required to keep a copy of the assignment they submit for marking. Again this is an important requirement. The second copy is your insurance policy against all types of contingencies relating to your assignment which could arise in a course as large as this. If your assignment is misplaced you will be asked to resubmit your copy of the assignment.

Each assignment must represent the students own work. In particular, this means that the written answers submitted by the student should be composed by that student. The copying of another student's answer, or part thereof, is clearly regarded as plagiarism. Cases of plagiarism will be dealt with severely. We draw your attention to the fact that the Discipline Committee of the University has the power to exclude a student from the University for malpractice and that each year this provision is invoked.

The following statement relating to collusion and plagiarism has been prepared by the University.

“The integrity of learning and scholarship depends on a code of conduct governing good practice and acceptable academic behaviour. One of the most important elements of good practice involves acknowledging carefully the people whose ideas we have used, borrowed, or developed. All students and scholars are bound by these rules because all scholarly work depends in one way or another on the work of others.

Therefore, there is nothing wrong in using the work of others as a basis for your own work, nor is it evidence of inadequacy on your part, provided you do not attempt to pass off someone else’s work as your own.

To maintain good academic practice, so that you may be given credit for your own efforts, and so that your own contribution can be properly appreciated and evaluated, you should acknowledge your sources and you should ALWAYS:

(i) State clearly in the appropriate form where you found the material on which you have based your work.

(ii) Acknowledge the people whose concepts, experiments, or results you have extracted, developed, or summarised, even if you put these ideas into your own words.

(iii) Avoid excessive copying of passages by another author, even where the source is acknowledged. Find another form of words to show that you have thought about the material and understood it, but remember to state clearly where you found the ideas.

If you take and use the work of another person without clearly stating or acknowledging your source, you are falsely claiming that material as your own work and committing an act of PLAGIARISM. This is a very serious violation of good practice and an offence for which you will be penalised.
YOU WILL BE GUILTY OF PLAGIARISM if you do any of the following in an assignment, or in any piece of work which is to be assessed, without clearly acknowledging your source(s) for each quotation or piece of borrowed material:

(a) Copy out part(s) of any document or audio-visual material, including computer-based material;

(b) Use or extract someone else's concepts or experimental results or conclusions, even if you put them in your own words;

(c) Copy out or take ideas from the work of another student, even if you put the borrowed material in your own words;

(d) Submit substantially the same final version of any material as a fellow student. On occasions, you may be encouraged to prepare your work with someone else, but the final form of the assignment you hand in must be your own independent endeavour.”

The simplest way to avoid plagiarism is to be open about your sources. There is no academic demerit in this. Many of the ideas used in essays, articles and books inevitably build on the work of others, and it is only honest and courteous to acknowledge those to whom you are indebted. Further statements on plagiarism can be found on pages 47-48 of the 2008 Handbook of Undergraduate Studies.

As the assignment is the only one required from students in this course, a major input will be expected from them in their preparation of this segment of work. In the evaluation of written work the following factors will be considered:

1. The relevance of the subject material included in the assignment to the question nominated for discussion.

2. The standard displayed in English expression and sentence construction and the level attained in the written articulation of ideas.

3. The ability to exhibit critical analysis in the subject area.

4. The ability to develop ideas in a logical or sequential fashion.

An assignment if it is to meet these requirements normally requires at least one and usually two drafts before the final copy is submitted.

(c) Final Examination

The final examination will consist of a three-hour paper which will be held during the University's final examination period. (Consult the Examination Timetable, available by October, for the exact date and location of the examination). This examination, which is based on the whole course, is worth 75% of the marks used for assessment. A handout describing in more detail the format of the final examination paper will be distributed toward the end of the semester.
(d) **General**

In terms of the overall assessment no rigid pass mark can be laid down in advance. Students however should be aware of the general condition that in order to pass the course they are expected to perform satisfactorily in all segments of the course. **In specific terms, this means that a pre-condition for passing the course is a pass in the final examination.** To re-emphasise, a student will not pass the course if his or her final examination result is very poor even if his or her other work is satisfactory.

8. **Enquiries and Problems**

(a) **Academic**

Members of the academic staff are willing to assist you with problems arising during the unit. Problems relating to difficulties you might be having in understanding material in lectures, readings or workshops should be directed in the first instance to your tutor.

Remember, if you are having difficulties or worries of any kind, do not hesitate to approach a member of staff. If you want to make sure of discussing something with a particular member of staff, it is often easiest (particularly for evening students) to phone and make an appointment.

(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 and Unavoidable Disruption to Studies**

If you are unfortunate enough to suffer accident, illness, or any other major disturbance which affects your work, you may 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 units 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).

This procedure ensures that the lecturers-in-charge of all your units are informed. Remember, a request for special consideration will not be entertained in respect of a particular examination if that request is made after the end of the exam period.

9. **Withdrawal from the Unit**

You may withdraw from any unit without penalty if the withdrawal takes place before the census date. The census date for second semester units in 2008 is Friday August 31. For
more information see the 2008 *Handbook of Undergraduate Studies* (pages 15, and 99-100). After this time, discontinuance will result in failure unless you withdraw on serious medical or other approved grounds.

10. **Library and ERIC**

By now you should be very familiar with the layout and operation of the University Library, and in particular with the Special Reserve system where you will find a great deal of material relevant to this unit.

In addition, the Division of Economic and Financial Studies supports ERIC located in Room E4B106. This facility is used as a central point for the posting of notices and for the submission of assignments.

11. **Societies**

You are strongly encouraged to join the Economic Society of Australia, which offers students full membership rights at concessional rates. Membership entitles you to attend meetings and conferences organised by the Society, and to receive the society's journals, *The Economic Record* and *Economic Papers* as well as the monthly Newsletter of the NSW Branch. Please apply to: The Administrator  
Box 937  
St Ives NSW 2075  
extosoc@efs.mq.edu.au

12. **Lecture Outline**

1. **Introduction**

Lecture No.
1. Administration and Introductory Comments
2. The Economic Problem and the Microeconomic Approach
3. An Overview of the Market System
4. Reasons for Government Intervention

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

5. The Demand and Supply Functions
6. Applications of Supply and Demand Analysis
7, 8 Price Elasticity of Demand
9. Income Elasticity and Cross Elasticity of Demand

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

10. Cardinal and Ordinal Utility
11. Choice and Constraints
12. Derivation of the Consumer's Demand Curve
13, 14 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)*

15. Theory of Production: The Production Function and the Individual Firm
16, 17 Theory of Costs of Production: The Short Run Situation
18 Theory of Costs of Production: The Long Run Situation

5. **Market Structures and Pricing**

19. Market Structures and the Firm's Revenue Conditions
20. Short Run Equilibrium of the Firm and Industry in Perfect Competition
21. MULTIPLE CHOICE TEST
22. Long Run Equilibrium of the Firm and Industry in Perfect Competition
23-24 Pure Monopoly
Applications of the Monopoly Model
Monopolistic Competition
Oligopoly
Evaluation: Perfect Versus Imperfect Market Structures

Factor Markets and Income Distribution
Factor demand in perfect and imperfect competition
Monopsony; factor supply
Rents; labour markets and wage determination
Income distribution and inequality

Introduction to Welfare Economics

Efficiency and Equity

Market Failure

Imperfect Information
Externalities and Public Goods

Introduction to Microeconomic Policy

Microeconomic Reform in Australia
<table>
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<th>Lecture No.</th>
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14. **Books on Microeconomics**

(a) **Set Text**

The set books for this course are:


AND


(b) **Supplementary Reading**

The following books cover much the same ground as the set text and at approximately the same level of difficulty.


(c) More Advanced References

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


15. Lecture Reading Guide

Lecture No.

1 Administration and Introductory Comments

2-4 The Economic Problem, An Overview of the Price Mechanism, Reasons for Government Intervention

Swann and McEachern - Chapters 1, 2 and 3
Sloman and Norris – Chapter 1
Sloman - Chapter 1
Jackson and McIver– Chapters 1 and 2
Begg, Fischer, Dornbusch – Chapters 1, 2 and 4
McTaggart, Findlay, Parkin - Chapters 1-3.


Eckert and Leftwich - Chapters 1 and 2.

5-9 The Demand and Supply Functions, Applications of Supply and Demand Analysis, Price Elasticity, Income Elasticity and Cross Elasticity of Demand

Swann and McEachern - Chapters 4, 5 and 6
Sloman and Norris – Chapters 2 and 3
Sloman - Chapters 2 and 3
Jackson and McIver – Chapters 3 and 6
Begg, Fischer, Dornbusch – Chapters 3 and 5
McTaggart, Findlay, Parkin - Chapters 4-7.

Eckert and Leftwich - Chapters 3 and 4.
10-14 The Consumer and Indifference Curve Analysis, Choice and Constraints, Applications of Indifference Curve Analysis

Swann and McEachern - Chapters 7 and appendix to Chapter 7, Chapter 19 especially. pp. 620-626

Sloman and Norris – Chapters 4 and 19

Sloman - Chapters 4 and 23.

Jackson and McIver, – Chapters 7 and 19

Begg, Fischer, Dornbusch – Chapters 6 and 33

McTaggart, Findlay, Parkin - Chapters 7 and 8

Eckert and Leftwich - Chapters 5-7.

15-18 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

Swann and McEachern - Chapters 8 and 9 and appendix to Chapter 9

Sloman and Norris – Chapter 5

Sloman - Chapter 5

Jackson and McIver – Chapter 9

Begg, Fischer, Dornbusch – Chapter 8

McTaggart, Findlay, Parkin - Chapters 9 and 10

Eckert and Leftwich - Chapters 9 and 10.

Awh - Chapters 7-10.

19 Market Structures and the Firm's Revenue Conditions

Jackson and McIver – Chapter 8

Eckert and Leftwich - Chapter 8

Awh - Chapter 11.
20-22  Short-Run Equilibrium of the Firm and Industry in Perfect Competition; Long-Run Equilibrium of the Firm and Industry in Perfect Competition

Swann and McEachern - Chapter 10
Sloman and Norris – Chapter 6
Sloman - Chapter 6
Jackson and McIver – Chapter 10
Begg, Fischer, Dornbusch – Chapter 9
McTaggart, Findlay, Parkin - Chapter 11
Eckert and Leftwich - Chapter 11
Awh – chapters 12 and 13

23-25  Pure Monopoly; Applications of the Monopoly Model

Swann and McEachern - Chapter 11
Sloman and Norris – Chapter 6
Sloman - Chapter 6
Jackson and McIver – Chapter 11
Begg, Fischer, Dornbusch – Chapters 7 and 9
McTaggart, Findlay, Parkin – Chapter 12
Eckert and Leftwich - Chapter 12
Awh - Chapter 14.

26  Monopolistic Competition

Swann and McEachern - Chapter 12
Sloman and Norris – Chapter 7
Sloman - Chapter 7
Jackson and McIver – Chapter 12
Begg, Fischer, Dornbusch – Chapter 10
27-28  **Oligopoly**

Swann and McEachern - Chapter 12
Sloman and Norris – Chapter 7
Sloman - Chapter 7
Jackson and McIver – Chapter 13
Begg, Fischer, Dornbusch – Chapter 10
McTaggart, Findlay, Parkin – Chapter 13
Eckert and Leftwich - Chapter 13
Awh – Chapter 15

29  **Evaluation: Perfect Versus Imperfect Market Structure**

Sloman - Chapter 11
Sloman and Norris – Chapter 10


30-33  **Factor Demand and Supply; Labour Markets and Wage Determination; Theory of Distribution and Inequality**

Swann and McEachern - Chapters 13 and 17
Sloman and Norris – Chapters 8 and 9
Sloman - Chapters 9 and 10
Jackson and McIver – Chapters 14-16 and 18
Begg, Fischer, Dornbusch – Chapter 11
McTaggart, Findlay, Parkin - Chapters 14, 15 and 17
34, 35  Introduction to Welfare Economics: Efficiency and Equity
Nicholson – Appendix to Chapter 13
Miller and Fishe – Chapter 16
Pindyck and Rubinfeld – Chapter 16
Begg, Fisher, Dornbusch – Chapter 15

36  Market failure – Imperfect Information
Swann and McEachern – Chapter 14, pp. 476-483, Chapter 16, pp 550-557.
Browning and Zupan – Chapter 13
Miller and Fishe – Chapter 7

37, 38  Market Failure: Externalities and Public Goods
Swann and McEachern – Chapter 14, pp. 489-499 and Chapter 16, pp. 524-549
Sloman and Norris – Chapter 10
Sloman – Chapter 11
Jackson and McIver – Chapter 17
McTaggart, Findlay, Parkin - Chapters 16 and 18
Begg, Fischer, Dornbusch – Chapter 15
Miller and Fishe – Chapter 17
Nicholson – Chapter 16
39. Microeconomic Reform in Australia

Swann and McEachern – Chapters 15 and 18

Sloman and Norris – Chapter 11

Taylor, Moosa, Cowling – Chapter 16

McTaggart, Findlay, Parkin – Chapter 19

Begg, Fischer, Dornbusch – Chapter 18
