

Intermediate Microeconomic Theory

Administration

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Office Hours Tuesday and Thursday 2.30-3.30

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Overview

This course has essentially two objectives: (i) to provide you with the tools necessary to tackle economic problems in a systematic way, and (ii) to develop basic intuitions that can help you analyze economic puzzles and policy problems you will encounter during the rest of your life. We will develop a theoretical model of both consumer and producer behavior. Combining both groups within a market and across markets provides a framework that is the basis for virtually all economic analysis. Those of you intending to pursue further studies in economics will require the tools developed in this class. Those of you with only a casual interest in economics will, I hope, use the intuitions developed in this course to make more sense of the world around you. To motivate the concepts and to illustrate the usefulness of the tools, we will cover applications as time permits.

Prerequisites

This is a **calculus** based class. At the beginning of the course, the TA's will go over the basic tools needed for the course. Economics 102 or equivalent is a prerequisite. Math 125 and 134, or equivalent, are **strongly recommended**.

Textbooks

Required:

David Besanko and Ronald R. Braeutigam *Microeconomics: An Integrated approach* Wiley, 2002

Recommended:

Walter Nicholson *Microeconomic Theory, 7th Edition*, Dryden 1998 (A slightly more advanced book for those of you who like math)

A good reference to brush up some calculus is:

Knut Sydsaeter and Peter J. Hammond *Mathematics for Economic Analysis*, Prentice Hall 1995

Grading

There will be weekly problem sets, each worth 5% of the total grade. Only the best 6 of them will count towards the final grade, and the first homework is due on Friday September 12 in your TA section. You are encouraged to discuss the assignments in groups, but the final product should be the result of your own work. A mid-term examination will take place on **Wednesday, October 14, 7-9 PM** and will be worth 30% of the grade. The final exam is scheduled **Wednesday, December 17, between 1.30 and 4.30 PM**.

The course grades will be assigned according to the system adopted by the University in 1996. This system uses a four point scale, with pluses and minuses. Grades may be A+, A, A-, B+, B, B-, C+, C, C-, D+, D, D-, and F.

Logistics

The course meets three times per week. On Tuesday and Thursday there will be regular lectures, while on Friday the teaching assistants will held a section. The purpose of Friday's meeting is to discuss practice problems and to answer questions you might have on the material covered in class.

There is a class web site, where you can find the text of all the homework assign-

ments and solutions, as well as the eventual handouts. Its address is

`www.business.uiuc.edu/facchini/classes/econ300/Econ300.html`.

Students with particular needs should see me at the beginning of the course.

Course Outline

(Book Chapter in brackets.)

0. Overview

0.1 Analyzing economic problems (Ch. 1)

0.2 Supply and demand analysis (Ch. 2)

1. Consumer Theory

1.1 Preferences and Utility (Chs. 3)

1.2 Budget Constraint (Ch. 4)

1.3 Choice (Ch. 4)

1.4 Composite goods (Ch. 4)

1.5 Revealed Preferences (Ch. 4)

1.6 Income and substitution effects (Ch. 5)

1.7 Welfare Measurement (Ch. 5)

1.8 Endowments:

– Labor Supply (Ch. 5)

– Intertemporal Choice (Ch. 4)

2. Theory of the Firm

2.1 Technology (Ch. 6)

– Single Input

– Multiple inputs

– Inputs substitutability

– Returns to Scale

2.2 Cost minimization (Ch. 7)

– Short Run

– Long Run

2.3 Cost curves (Chs. 7, 8)

3. Perfectly competitive markets

3.1 Profit Maximization under perfect competition (Ch. 9)

3.2 Firm supply (Ch. 9)

3.3 Industry Supply (Ch. 9)

3.4 Applications: (Ch. 10)

– Taxes and Subsidies

– Price Ceilings and Floors

– Tariffs and quotas

4. Market Power

4.1 Monopoly and Monopsony (Ch. 11)

4.2 Price discrimination (Ch. 12)

4.3 Market Structure (Ch. 13)

– Oligopoly

– Monopolistic competition

4.4 Introduction to non-cooperative game theory (Ch. 14)