

**Ecn. 315/510 Economic Analysis Section 01**  
**Instructor: Raphael Shen, S.J.**  
**Class meets: 6:40 p.. - 9:05 p. Mondays. B-351**

**Text: Edwin Mansfield Microeconomics: Theory/Applications. W. W. Norton. New or older editions are acceptable. [In fact, older editions would contain less unnecessary].**  
**materials than the newer ones.**

**Office Hours:**

Since most of the students work during daytime, no office hours are posted. Students can make appointment(s) either before/after class for a specified day and time. The student may also make an appointment by phoning 993-1055 (faculty office), or 993-1000 (Lansing-Reilly Hall at the University). Please leave a message and I shall return your call as soon as it is feasible. [Note: There is a long recorded message to 993-1000 (one minute and 10 seconds!). As soon as the recording kicks in, press "0" and you will be connected instantly. A convenient way to reach me is via e-mail as I check the "in-box" of my e-mail several times daily. My e-mail address is: shenrs@udmercy.edu

**Course objective:**

That the students master all important concepts/relationships/reasonings behind a decision maker's economic behavior and be able to apply them with ease and understanding. Basically, via model analysis, this course attempts to attain a deeper understanding of the THEORY governing various aspects of human behavior regarding consumption, production, distribution, pricing and exchange.

**Exams:** There will frequently scheduled quizzes starting Monday, January 31<sup>st</sup>, plus a final exam on Monday, April 25<sup>rd</sup>)

**Grading:** Quizzes = 70% of the course weight; and, Final Exam = 30%

90 or better = A	87-89 = A-	84-86 = B+
80-84 = B	76-79 = B-	73-75 = C+
68-72 = C	64-67 = C-	60-63 = D+
56-59 = D	Below 56 = F	

**Course Requirement:**

Students are expected to prelect (read beforehand) the class material to be covered in class and should always be one step ahead of the material to be covered in class. There will be review sheets for each section of the course material. The completed exercise sheets need not be handed in, but they are designed to help the class understand the course content via application of concepts and relationships. It is

understood that these review sheets also help the quiz/exam preparations.

**TENTATIVE schedule:**

	<u>DATE</u>	<u>CONCEPTS, THEORIES, APPLICATIONS</u>
Jan.	10	Introduction, usefulness of Microeconomics Demand, change in demand, price elasticity of Demand, elasticities of demand and total expenditures, supply, change in supply, elasticity of supply, market equilibrium, price ceiling/floor, surplus and shortage.
	17	Martin Luther King, Jr. Day, school closed.
	24	Marginal utility, law of diminishing marginal utility, the rational consumer, budget line, budget allocation, indifference curve, marginal rate of substitution (p. 58), consumer equilibrium, changes in consumer income, changes in relative product-prices, price indices.
	31	Substitution effect, income effect, total effect, normal good, inferior good, graphic measure of price elasticity of demand, income elasticity of demand, cross elasticity of demand, substitutes, complements, Seller's side of the market: marginal revenue, graphic measure of marginal revenue, relationship between marginal revenue and elasticity of demand.
Feb.	7	Production, average/marginal/total product, the production function, law of diminishing returns, geometry of average/marginal/total product, 3 stages of production.
	14	Isoquant, marginal rate of technical substitution (substitutability of inputs), optimal input combination, cost, opportunity cost, social vs. private costs, explicit vs. implicit costs, cost minimization, returns to scale, changes in technology, fixed/variable/average/marginal/total cost.
	21	Geometry of cost functions, derivation of supply function, short term equilibrium and profit maximization.
	28	Perfect competition, effect of an increase or a decrease in market demand, long run equilibrium, increasing/decreasing/constant cost industries,

Mar.	7	Spring break
	14	Monopoly, causes of monopoly, demand function faced by the monopolist, profit maximization level of output, welfare loss, relationship between price and output.
	21	Price discrimination, type II and III price Discrimination, imperfect competition/markets, Cournot/Chamberlain/Edgeworth models of imperfect competition.
	28	Causes for imperfect competition, oligopoly, the kinked demand function, price leadership.
Apr.	4	Barriers to entry into oligopolistic markets, cost-plus pricing, non-price competition, effects of oligopoly.
	11	Monopolistic competition, assumption, the two demand functions under monopolistic competitive conditions, short and long run equilibria, excess capacity.
	18	Factor (input) market. Employment of inputs. General equilibrium, the Edgeworth Box Diagram analysis, basic trade theory.
	25	Exam.

**Microeconomics is that branch of social science which concerns itself with the analysis of behavior of an individual decision making unit: the consumer, the producer, the competitive firm, the monopolistic market, the oligopolistic or imperfect market, the monopolistically competitive firms, the input user/market and so forth. The text does leave much to be desired. For a better understanding of the subject matter, please follow the order of concepts, theories and topical relationships as listed above instead of rigidly adhering to the order of presentation of the text. The key to mastering the course material is: read before class, class attendance/participation, review class notes and do the handout exercises.**

**Microeconomics is that branch of social science which concerns itself with the analysis of behavior of an individual decision making unit: the consumer, the producer, the competitive firm, the monopolistic competitor, the oligopolist, the monopolist, the input user and so forth. The text may be roughly divided into six parts for this course:**

**Parts one and two consist of chapters one through five (we omit ch. 6). First, the students are induced to perceive the usefulness of microeconomics as a tool of analysis. Then the behavior of an average consumer's budget restraints, it shows how a rational decision maker should reach his/her choice of a market basket. When demands of all consumers are aggregated, the market demand function is derived.**

Part three of the text includes chapters seven and eight. It lays down the ground rules for decision making in production processes. The physical aspects of production basically consist of input-output-relationships, or the production function and the law of diminishing returns. Economics is concerned with the "optimal" allocation of scarce resources: 1, to produce as many units of desired product(s) with as few units of input(s) as technically feasible; and, 2, to make the highest profit from given investment outlays. Therefore, costs and economic returns are brought into the picture. In light of input expenses and output prices, students are to the elementary principles of how to allocate inputs to achieve a level and combination of outputs for cost minimization and profit maximization.

Part four includes chapters nine through thirteen (we omit chs. 10 & 13). In this section are discussed the production/sale behavior of firms which find themselves in all possible market situations: purely competitive, purely monopolistic, monopolistically competitive, duopolistic and oligopolistic. Within these short chapters are compared the relative efficiency of resource use by all these types of firms in society. Also discussed in this section is the question of whether or not monopolistic behavior is compatible with social well being.

Part five consists of two chapters: fourteen and fifteen (we omit ch. 15). Its basic idea is similar to that of part three, except that it is input --instead of output-- markets that are being considered. Parallel to output markets, input markets such as labor and raw materials could be either "perfectly competitive" (e.g. unskilled labor) or not so competitive (e.g. unionized labor). Given the input supply market structure, and therefore input prices, these two chapters analyze how the producer should employ the use of an input, or a combination of inputs, accordingly.

Chapter sixteen onwards makes up part six. These chapters pull all previous discussions into one general picture: input-production and output-exchange, and show how a general equilibrium state may be arrived at. The general equilibrium state shows how inputs are optimally utilized and outputs are satisfactorily exchanged. From this ideal production-exchange situation is then furthered the discussion of how social welfare may be maximized under resource constraints.