A. Administrative Information

Contact Information

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B. Materials

Required
Course pack: Contains articles from magazines & newspapers

Supplemental (not required)
Frank, R., The Economic Naturalist: In Search of Explanations for Everyday Enigmas,
Basic Books, 2008

C. Course Overview

This course introduces the fundamental concepts, models & theories of microeconomics. The goal is to enable you to think like an economist: to frame problems in economic terms, to propose solutions that address the central issues and to assess the tradeoffs. The course emphasizes three general lessons. First, many fundamental insights on how & why markets function the way they do can be obtained using a supply & demand model. Second, incentives & constraints tell us quite a lot about why consumers, firms and organizations make the decisions they do. Third, efficiency is a very useful criterion for comparing alternative markets & institutions.
Mathematics

Though this course does not require you to be proficient in *mathematics*, it is assumed that you have a working knowledge of *basic calculus* (i.e., the use of derivatives) & *algebra* (i.e., solving systems of equations) and that you are comfortable with equations and figures. You may find it useful to review the mathematical appendices (pages 686-704) in Besanko & Braeutigam.

**What you will learn in this course?**

By the end of the quarter, you will be able to:

- Describe economic problems in *words, figures and equations*
- Use the supply-demand model to *explain & predict* market outcomes
- Understand *how* preferences and budget constraints combine to influence consumption decisions
- *Compute* and *interpret* the price elasticity of demand, the cross-price elasticity of demand and the income elasticity of demand
- Understand *how* firms make their *input & production* decisions, how they structure *incentives* for employees and how they *coordinate* activities
- Recognize *how* the *composition* of a firm’s costs influences its *breakeven point*, its *shut-down* and *exit* decisions
- Examine *how* excise taxes and income taxes influence markets
- Recognize whether a given market is (or close to) *perfectly competitive* and the implications for consumers and producers
- Understand *how* firms choose *different* prices for *different* consumers
- *Formalize* games in extensive and normal forms and *solve* them using the Nash equilibrium and sequential equilibrium concepts
- Recognize how production and consumption externalities distort decision-making and evaluate alternative policies to reduce these distortions
- Understand *how* attitudes towards risk influence the risk premium
D. Course Requirements and Grading

Your grade in this course will depend on 4 components:

- Homework assignments (20%)
- Report (10%)
- Mid-term exam (30%)
- Final exam (40%)

Homework Assignments

I have assigned 4 homework assignments:

- The assignments are posted on chalk
- To be submitted in groups of 5
- Each assignment will count for 5% of your final grade
- Due at the beginning of sessions 3, 5, 7 and 9 respectively
- Solutions will be posted on the course site at the end of weeks 3, 5, 7 and 9.
- The TA will grade all assignments

Report

- To be submitted in groups of 5
- Due at the beginning of session 9
- The report should identify a current economic problem that firms, consumers, governments, etc. confront and then propose an explanation (or solution) using any economic concepts, models or theories discussed in class
- Your report should not exceed a total of 2 pages including 1 written page- 12 point font, 1.5 line spacing and wide margins- and 1 page for exhibits, tables, etc.
- More detailed guidelines are provided in a document posted on chalk
Exams

The mid-term exam will be held in class in the first half of session 6 and the final exam will be held during final exam week. Both exams are closed-book exams. The format of the exams will be discussed in class.

Lecture Notes

Notes will be distributed in class at the start of each session. I will post a copy of the notes (on chalk) at the end of each week.

Review Session

I will conduct a review session before the mid-term and final exams. Time and location TBD.

E. Honor Code

Students are expected to adhere to the terms of Chicago Booth’s honor code and to Chicago Booth standards of scholarship. Students must sign the following honor code pledge on all assignments and exams.

“I pledge my honor that I have not violated the Chicago Booth honor code.”
F. Class Schedule

This is a tentative week-by-week syllabus. Please be sure to read the articles and the (relevant) chapters from the text book before the material is discussed in class.

Session 1: Demand, Supply, Industries and Markets

- The economic problem
- Markets & industries
- The demand and supply model
- Market equilibrium and comparative statics
- Price elasticity, income elasticity and cross-price elasticity
- Product markets, labor markets & asset markets
- Why all of this matters: examples and empirical evidence

Readings: Besanko and Braeutigam, Chapter 1 (pages 1-17) and Chapter 2 (pages 26-57)

“Don’t Expect Markets to Bend it Like Beckham,” Financial Times, 12/29/10


Session 2: Consumer Theory

- Axioms of rational choice
- Utility & utility functions
- Indifference curves & budget lines
- Optimal choice
- Measuring satisfaction

Readings: Besanko and Braeutigam, Chapter 3 (pages 73-98), Chapter 4 (pages 103-115) and Chapter 5 (pages 150-158)

“Deviations from the Mean,” The Economist, 03/23/02


Session 3: Firm Theory I: Production

- What is a firm?
- Inputs & the production function
- Total factor productivity (TFP): what is it & why is it important?
- Empirical evidence on productivity
- How technology *diffuses*
- How important is management?

*Readings:* Besanko and Braeutigam, Chapter 6 (pages 200-219), Chapter 7 (pages 245-253)

“Print Me a Stradivarius,” *The Economist*, 02/12/11


Reading

Session 4: Firm Theory II: Costs

- Total cost: fixed cost & variable cost
- Opportunity cost & sunk cost
- Marginal costs & average costs
- Why *costs* matter: breakeven, shut-down & exit rules
- Why the *composition of costs* matter: operating leverage & outsourcing

*Readings:* Besanko and Braeutigam, Chapter 8 (pages 285-310).

“American Companies Show an Edge in Putting Information to Work,” *New York Times*, 01/12/06

Session 5: Perfect Competition

- *When* is a market perfectly competitive?
- Profit maximization by a competitive firm
- Short-run equilibria
- Why is competition desirable?

*Readings:* Besanko and Braeutigam, Chapter 9 (pages 327-352 and 366-377)

“A Question of Management,” *The Economist*, 06/11/05


Reading
Session 6: Taxation and Regulation

Mid-Term Examination: First 120 Minutes

- Consumer & producer surplus
- Tax incidence
- Regulation

Readings: Besanko and Braeutigam, Chapter 10 (pages 386-397)

Session 7: Market Imperfections I- Monopoly and Price Discrimination

- How do monopolies come to be?
- Monopoly pricing
- Social objections to monopolies
- Price discrimination (PD): 1st, 2nd and 3rd degree PD
- Examples and evidence

Readings: Besanko and Braeutigam, Chapters 11 (pages 438-456) and Chapter 12 (pages 485-503)

“Powerful Interests are Trying to Control the Market,” Financial Times, 11/11/09


Session 8: Game Theory

- Extensive form and normal form representations of games
- Dominant strategy and the Nash equilibrium
- Sequential games

Readings: Besanko and Braeutigam, Chapter 14 (pages 571-596)


Reading
Session 9: Market Imperfections II- Oligopoly & Externalities

- The Cournot, Bertrand & Stackelberg models
- Collusion
- Externalities

Readings: Besanko and Braeutigam, Chapter 13 (pages 528-543) & Chapter 17 (pages 697-710)

“Reality Bites,” The Economist, 10/15/09

Session 10: Risk & Uncertainty

- Expected utility
- The St. Petersburg paradox
- Attitudes towards risk
- Bearing and eliminating risk
- Final thoughts on the course

Readings: Besanko and Braeutigam, Chapter 15 (pages 604-621)

“Risk MisManagement,” New York Times Magazine, 01/04/09

Supp. Reading


Final Exam Week:

In-class final exam