COURSE SYLLABUS

**Microeconomics**

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| **Lecturer / Responsible professor**: Ilira Pulaj; Lorena Alikaj  **Week load / course format:**7 credits, 3 hours of lectures / 2 hours of seminars  **Course type**: Compulsory  **Academic year / Semester:** Spring  **Elective / Required:** Required  **Program:** Bachelor in Economics  **Course code:** ECN 170  **Email of lecturer/ Responsible professor:** [ilira.pulaj@univlora.edu.al](mailto:ilira.pulaj@univlora.edu.al) ; [lorena.alikaj@univlora.edu.al](mailto:lorena.alikaj@univlora.edu.al) |

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| **OVERVIEW:**  The course will present to the students the basic economic concepts and the advanced ones in micro terms. Theoretical concepts will be applied through hypothetical case studies, provided during seminars. This course is an advanced treatment of “Introduction to economics” micro part. |

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| **MAIN CONCEPTS:**  1. consumer, utility maximization, budget line, utility (preference) curve;  2. firm, profit maximization, isocosts’ curve, isoquants’ curve, tangentiality condition;  3. market organization forms, competitive market, monopoly, monopolist competition, oligopoly; |

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| **TOPICS**  Intermediate Microeconomics: A Modern Approach, 8th Edition,  Hal R. Varian  1st WEEK  CHAPTER I: The market  Constructing a Model 1 Optimization and Equilibrium 3 The Demand Curve 3 The Supply Curve 5 Market Equilibrium 7 Comparative Statics 9 Other Ways to Allocate Apartments 11 The Discriminating Monopolist • The Ordinary Monopolist • Rent Control •Which Way Is Best? 14 Pareto Efficiency 15 Comparing Ways to Allocate Apartments 16 Equilibrium in the Long Run 17 Summary 18Review Questions 19  2nd WEEK  CHAPTER II: The Budget constraint  The Budget Constraint 20; Two Goods Are Often Enough 21; Properties of the Budget Set 22; How the Budget Line Changes 24; The Numeraire 26; Taxes, Subsidies, and Rationing 26; Example: The Food Stamp Program Budget Line Changes 31; Summary 31; Review Questions 32.  3rd WEEK  CHAPTER III: Preferences  Consumer Preferences 34; Assumptions about Preferences 35; Indifference Curves 36; Examples of Preferences 37; Perfect Substitutes, Perfect Complements • Bads • Neutrals • Satiation • Discrete Goods Well-Behaved Preferences 44; The Marginal Rate of Substitution 48; Other Interpretations of the MRS 50; Behavior of the MRS 51; Summary 52; Review Questions 52.  4th WEEK  CHAPTER IV: Utility  Cardinal Utility 57; Constructing a Utility Function 58; Some Examples of Utility Functions 59; Example: Indifference Curves from Utility, Perfect Substitutes, Perfect Complements, Quasilinear Preferences, Cobb-Douglas Preferences, Marginal Utility 65; Marginal Utility and MRS 66; Utility for Commuting 67; Summary 69; Review Questions 70; Appendix 70; Example: Cobb-Douglas Preferences.  4th – 5th WEEK  CHAPTER V: Choice  Optimal Choice 73; Consumer Demand 78; Some Examples 78; Perfect Substitutes , Perfect Complements, Neutrals and Bads, Discrete Goods, Concave Preferences, Cobb-Douglas Preferences, Estimating Utility Functions 8;3 Implications of the MRS Condition 85; Choosing Taxes 87; Summary 89; Review Questions 89; Appendix 90; Example: Cobb-Douglas Demand Functions.  5th WEEK  CHAPTER VI: Demand  Normal and Inferior Goods 96; Income Offer Curves and Engel Curves 97; Some Examples 99; Perfect Substitutes , Perfect Complements, Cobb-Douglas Preferences, Homothetic Preferences, Quasilinear Preferences, Ordinary Goods and Giffen Goods 104; The Price Offer Curve and the Demand Curve 106; Some Examples 107 Perfect Substitutes, Perfect Complements, A Discrete Good , Substitutes and Complements 111; The Inverse Demand Function 112; Summary 114; Review Questions 115; Appendix 115.  WEEK 6  CHAPTER VIII: Slutsky Equation  The Substitution Effect 137; Example: Calculating the Substitution Effect, The Income Effect 141 Example: Calculating the Income Effect, Sign of the Substitution Effect 142; The Total Change in Demand 143; Rates of Change 144; The Law of Demand 147; Examples of Income and Substitution Effects 147; Example: Rebating a Tax Example, Voluntary Real Time Pricing, Another Substitution Effect 153; Compensated Demand Curves 155; Summary 156; Review Questions 157; Appendix 157; Example: Rebating a Small Tax.  6th – 7th WEEK  CHAPTERXIV: Consumer’s surplus  Demand for a Discrete Good 252; Constructing Utility from Demand 253; Other Interpretations of Consumer’s Surplus 254; From Consumer’s Surplus to Consumers’ Surplus 255; Approximating a Continuous Demand 255; Quasilinear Utility 255; Interpreting the Change in Consumer’s Surplus 256; Example: The Change in Consumer’s Surplus Compensating and Equivalent Variation 258; Example: Compensating and Equivalent Variations Example: Compensating and Equivalent Variation for Quasilinear Preferences Producer’s Surplus 262; Benefit-Cost Analysis 264; Rationing, Calculating Gains and Losses 266; Summary 267; Review Questions 267; Appendix 268; Example: A Few Demand Functions Example: CV, EV, and Consumer’s Surplus.  7th WEEK  CHAPTERXV: Market demand  From Individual to Market Demand 270; The Inverse Demand Function272; Example: Adding Up “Linear” Demand Curves Discrete Goods 273; The Extensive and the Intensive Margin 273; Elasticity 274; Example: The Elasticity of a Linear Demand Curve Elasticity and Demand 276; Elasticity and Revenue 277; Example: Strikes and Profits Constant Elasticity Demands 280; Elasticity and Marginal Revenue 281; Example: Setting a Price Marginal Revenue Curves 283; Income Elasticity 284; Summary 285; Review Questions 286; Appendix 287; Example: The Laffer Curve Example: Another Expression for Elasticity.  7th – 8th WEEK  CHAPTER XVI: Equilibrium  Supply 293; Market Equilibrium 293; Two Special Cases 294; Inverse Demand and Supply Curves 295; Example: Equilibrium with Linear Curves Comparative Statics 297; Example: Shifting Both Curves Taxes 298; Example: Taxation with Linear Demand and Supply Passing Along a Tax 302; The Deadweight Loss of a Tax 304; Example: The Market for Loans Example: Food Subsidies Example: Subsidies in Iraq, Pareto Efficiency 310; Example: Waiting in Line Summary 313; Review Questions 313.  8th WEEK  CHAPTER XVIII: Technology  Inputs and Outputs 332; Describing Technological Constraints 333; Examples of Technology 334; Fixed Proportions, Perfect Substitutes, Cobb-Douglas, Properties of Technology 336; The Marginal Product 338; The Technical Rate of Substitution 338 Diminishing Marginal Product 339; Diminishing Technical Rate of Substitution 339; The Long Run and the Short Run 340; Returns to Scale 340; Example: Data centers; Summary 343; Review Questions 344.  9th WEEK  CHAPTER XIX: Profit Maximization  Profits 345; The Organization of Firms 347; Profits and Stock Market Value 347; The Boundaries of the Firm 349; Fixed and Variable Factors 350; Short-Run Profit Maximization 350; Comparative Statics 352; Profit Maximization in the Long Run 353; Inverse Factor Demand Curves 354; Profit Maximization and Returns to Scale 355; Revealed Profitability 356; Example: How Do Farmers React to Price Supports? Cost Minimization 360; Summary 360; Review Questions 361; Appendix 362.  10th WEEK  CHAPTER XX: Cost Minimization  Cost Minimization 364; Example: Minimizing Costs for Specific Technologies Revealed Cost Minimization 368; Returns to Scale and the Cost Function 369; Long-Run and Short-Run Costs 371; Fixed and Quasi-Fixed Costs 373; Sunk Costs 373; Summary 374; Review Questions 374; Appendix 375.  11th WEEK  CHAPTER XXII: Firm Supply  Market Environments 395; Pure Competition 396; The Supply Decision of a Competitive Firm 398; An Exception 400; Another Exception 401; Example: Pricing Operating Systems The Inverse Supply Function 403; Profits and Producer’s Surplus 403; Example: The Supply Curve for a Specific Cost Function, The Long-Run Supply Curve of a Firm 407; Long-Run Constant Average Costs 409; Summary 410; Review Questions 411; Appendix 411.  12th WEEK  CHAPTER XXIII: Industry Supply  Short-Run Industry Supply 413; Industry Equilibrium in the Short Run 414; Industry Equilibrium in the Long Run 415; The Long-Run Supply Curve 417; Example: Taxation in the Long Run and in the Short Run The Meaning of Zero Profits 421; Fixed Factors and Economic Rent 422; Example: Taxi Licenses in New York City Economic Rent 424; Rental Rates and Prices 426; Example: Liquor Licenses The Politics of Rent 427; Example: Farming the Government Energy Policy 429; Two-Tiered Oil Pricing, Price Controls, The Entitlement Program, Carbon Tax Versus Cap and Trade 433; Optimal Production of Emissions, A Carbon Tax, Cap and Trade, Summary 437; Review Questions 437;  13th WEEK  CHAPTER XXIV: Monopoly  Maximizing Profits 440; Linear Demand Curve and Monopoly 441; Markup Pricing 443; Example: The Impact of Taxes on a Monopolist, Inefficiency of Monopoly 445; Deadweight Loss of Monopoly 447; Example: The Optimal Life of a Patent Example: Patent Thickets Example: Managing the Supply of Potatoes Natural Monopoly 451; What Causes Monopolies? 454; Example: Diamonds Are Forever Example: Pooling in Auction Markets Example: Price Fixing in Computer Memory, Markets Summary 458; Review Questions 458; Appendix 459.  14th WEEK  CHAPTER XXV: Monopoly Behavior  Price Discrimination 462; First-Degree Price Discrimination 462; Example: First-degree Price Discrimination in Practice, Second-Degree Price Discrimination 465 Example: Price Discrimination in Airfares Example: Prescription Drug Prices Third-Degree Price Discrimination 469; Example: Linear Demand Curves Example: Calculating Optimal Price Discrimination Example; Price Discrimination in Academic Journals Bundling 474; Example: Software Suites Two-Part Tariffs 475; Monopolistic Competition 476; A Location Model of Product Differentiation 480; Product Differentiation 482; More Vendors 483; Summary 484; Review Questions 484.  15th WEEK  CHAPTER XXVII: Oligopoly  Choosing a Strategy 498; Example: Pricing Matching Quantity Leadership 499; The Follower’s Problem, The Leader’s Problem, Price Leadership 504, Comparing Price Leadership and Quantity Leadership 507; Simultaneous Quantity Setting 507; An Example of Cournot Equilibrium 509; Adjustment to Equilibrium 510; Many Firms in Cournot Equilibrium 511; Simultaneous Price Setting 512; Collusion 513; Punishment Strategies 515; Example: Price Matching and Competition Example: Voluntary Export Restraints Comparison of the  Solutions 519; Summary 519; Review Questions 520.; |

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| **EVALUATION**  **ALLOWED ABSENCES:** Up to 25% of semester load are allowed  **EVALUATION FORMS:**  First test 30%  Presence 10%  Final test 60%  The maximum grade is 10, the minimum one is 5. Course grade calculation is as below:  S ≥ 90% =10  80 ≤ S ≤ 89% = 9  70 ≤ S ≤ 79% = 8  60 ≤ S ≤ 69% = 7  50 ≤ S ≤ 59% = 6  40 ≤ S ≤ 49% = 5  S < 40% = 4  The students who don’t meet the criteria of presence will be penalized by not entering in the final test. The notation M will be put as a final grade. |

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| **LITERATURE:**   1. **Mandatory literature**  * Intermediate Microeconomics: A Modern Approach, 8th Edition,Hal R. Varian  1. **Recommended literature**  * Principles of Microeconomics, 7th Edition, N. Gregory Mankiw * Microeconomic Theory, Andreu Mas-Colell, Michael D. Whinston and Jerry R. Green   **FINAL REMARKS OF THE LECTURER/ RESPONSIBLE PROFESSOR**  Course’s format:  The course will be evaluated through one first test and one final one. Points achieved will be accumulated and no possibility for re – seat will be granted.  Communication:  In case of any question or doubt, please send an email with the subject ECN 170. If is the case of an emergency, please put into the subject the word “Urgent”. Please do not send questions that I prefer to answer to the whole class. Before sending an e-mail, please be sure that the information you are asking for is not provided in the official website of the university.  Honor code:  Is not allowed team work in the case of homework or individual projects. Cheating is punishable. Using others works without references is considered plagiarism and penalties are provided. Any possible case will be considered to the Ethic Committee. It is suggested responsibility and cooperation in fulfilling the course criteria. Mobile cells should be silent during class and not allowed during tests. |