

## SYLLABUS

040184 UK

### *Introduction to Microeconomics*

University of Vienna  
Winter 2011

Time & Venue:

M 9.30-11.30 am, BWZ Hörsaal 3

W 9.30-11.30 am, BWZ Hörsaal 4

Instructor:

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*About the Course:* Microeconomics is the study of individual markets, as opposed to the economy as a whole. As such, it involves a careful analysis of the motivations, constraints and choices of agents on the demand and supply side (i.e. consumers and producers) and the role of prices. Under certain conditions, given by the First Welfare Theorem, market outcomes are efficient. Strategic behavior in the work place and the market place can lead to efficiency failures. We will study the provision of incentives and the creation and exercise of market power, which are important management problems. Along the way, you will learn various techniques, from constrained optimization, elementary game theory and mechanism design, that form the core of the economist's tool bag.

*A Word about Economics, Theory and Math:* There are two typical reactions to your first economics class. One is that economics offers unexpectedly rich and powerful insights – “it's not boring like I thought.” Or you might feel that economics oversimplifies reality and overemphasizes rigor – “why make me learn all that math?!” The truth is that no economics course will give you a life-like picture of business practice. Economics uses the scientific method: a model looks at variations in some factor while keeping others fixed in order to identify causes. What you get is not a blueprint for running a firm, but the ability to evaluate a complex situation by recognizing the forces at work and the direction of an action's effects. By requiring adherence to logical principles, economics also trains you to reject vague and twisted arguments. This analytical perspective is invaluable, you can always tell in a strategic or policy debate who has an economics background and who does not.

*Work Load and Expectations:* Basic microeconomic analysis is one of the most important courses you will ever take, and you should take it very seriously. Make a habit of solving problem sets in detail. Assessment is based entirely on problem-solving, which requires mastery of some calculus and other mathematics. You will have plenty of practice, and I will go over the methods. But it is essential to develop a discipline of attending lectures and working on assignments from the start, else you will be overwhelmed by the quantity of material.

*Textbooks:* Though I will not follow any book very closely, I do expect you to read one alongside the course (or my notes, which I will post after lecture). I suggest this one by a leading microeconomic theorist. It features limited production values, but is well-written – and available for free:

Preston McAfee (2006), *Introduction to Economic Analysis* (2e). Downloadable: <http://www.mcafee.cc/Introecon/IEA.pdf>.

If you're willing to spend the money, you can get a full-service textbook that offers plenty of applications, exercises and color graphs. The text of choice at the University of Vienna (and one that I would also recommend) is:

Jeffrey Perloff (2011), *Microeconomics* (6e). Addison Wesley, ISBN: 978-0131392632. (A cool € 150 at Amazon; if you can find an older edition for cheap, go for it.)

Associated resources:

[http://wps.aw.com/bp\\_perloff\\_microecon\\_6/179/46079/11796406.cw/index.html](http://wps.aw.com/bp_perloff_microecon_6/179/46079/11796406.cw/index.html)

*Assessment:* There will be four problem sets (consisting of five multi-part problems each), one midterm and one final exam. Each problem set counts for 5% of your course grade (so the total for all problem sets is 20%). I will not collect problem sets, but use an honor system (with some monitoring), where you declare how much you have solved and are responsible for presenting your results in class, if called upon. If you claim that you solved a problem, but then cannot show a coherent answer, your overall course grade goes down by one. If you cannot make it to class the day that a problem set is due, you may hand in written answers instead (by e-mail). Late submissions are not acceptable.

The midterm (90 minutes) counts for 40%, and so does the final. The mandatory part of the final tests the material covered after the midterm. However, I will also offer a comprehensive version of the final, which you can optionally take, thereby waiving your midterm grade, and making the final count for 80%. You can make this decision while you take the final: if you do not waive your midterm grade, you need to finish by the regular time (90 minutes), else you can stay on (take another 90 minutes).

Grades correspond to percentages as follows:

Raw Score (%)	Grade	Equivalent Letter Grade
89-100	1	A
76-88	2	
63-75	3	B
51-62	4	C
0-50	5	F

*Lecture Plan:*

(Readings: M = McAfee, P = Perloff book)

WEEK	DAY	SUGGEST. READING	TOPIC
Week 1	M Oct 3	M 1, (M 3); P 1	Introduction
	W Oct 5		Preferences and Gains from Trade
Week 2	M Oct 10	M 5; P 4, P 5, (P 16)	Consumer Choice
	W Oct 12	M 4, M 6.5; P 8, P 11, P 12	Production and Pricing
Week 3	M Oct 17	M 7.7; P 6, P 7	Technology
	W Oct 19		Exercises I
Week 4	M Oct 24	M 2.1-2.5, M 6.1-6.2; P 2, P 3, P 9	Market Equilibrium
	W Oct 26		<b>No Class</b> (Nationalfeiertag)
Week 5	M Oct 31		General Equilibrium
	W Nov 2		<b>No Class</b> (Vorlesungsfrei)
Week 6	M Nov 7	P 10	General Equilibrium (cont'd)
	W Nov 9		Exercises II
Week 7	M Nov 14	M 2.6; P 15, P 18	Trade and Factor Prices
	W Nov 16	M 6.3-6.4	Externalities and Public Goods
Exam Week	M Nov 21		<b>Midterm Exam</b>
	W Nov 23		Midterm Solutions
Week 8	M Nov 28		Risk and Auction
	W Nov 30	M 7.6; P 17	Risk and Auctions (cont'd)
Week 9	M Dec 5	M 6.6; P 19	Adverse Selection
	W Dec 7	M 7.5; P20	Incentives
Week 10	M Dec 12		Incentives (cont'd)
	W Dec 14		Exercises III
Christmas Holidays			
Week 11	M Jan 9		Game Theory
	W Jan 11	M 7.1-7.3; P 13, P 14	Game Theory (cont'd)
Week 12	M Jan 16	M 7.4	Reputation Effects and Product Differentiation
	W Jan 18		Exercises IV
Exam Week	M Jan 23		<b>Final Exam</b>
	W Jan 25		Final Solutions