

SYLLABUS

040464 UK (1)

Introduction to Microeconomics

University of Vienna
Summer 2012

Time & Venue:

September 3-27 (see below for specifics)
BWZ Hörsaal 6 (3rd floor)

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 Economic 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 how you can influence them. 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 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 problems from the start, else you will be overwhelmed by the quantity of material.

Course Site: www.econmx.com/intromicro_s12.htm, for lecture notes, past exams and practice problems.

Textbooks: I will not lecture closely from any book, instead I aim to explain much of the material in the context of specific problems like those on the exams. Depending on your own study needs and habits, you may want to read a book alongside, or the lecture notes. As for books, many alternatives exist; here is one by a leading microeconomist that is well-written – and 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. At the University of Vienna, we have typically used:

Jeffrey Perloff (2011), *Microeconomics* (6e). Addison Wesley, ISBN: 978-0131392632. Now available in a variety of versions at costs ranging from reasonable to ridiculous; don't break the bank to get it, but maybe you can pick up a cheap older edition or a library copy. You can find some associated resources at: http://wps.aw.com/bp_perloff_microecon_6/179/46079/11796406.cw/index.html.

Attendance: Is not required and not checked. What I do require is that, if you attend, you come on time, so as not to disturb the class. There are specific penalties for being late (see "Assessment").

Assessment: Every Thursday (which makes three in all), we will have a 90 minute exam in the second part of class (11.00-12.30), preceded by a 90 minute review session in the first part of class (9.00-10.30). I will not schedule make-up exams. However, you only need to take two of the three exams. If you take two, then each counts for 45%; if you take all three, then each counts for 30%. You may decide whether or not to take an exam up to 15 minutes into starting it. If you stay for longer than 15 minutes, then the exam will count. The exams determine 90% of your grade. The remaining 10% are given to you at the start of the course, but I will subtract 1% for getting to class late at any point, including when class resumes after a break. Therefore, I would advise that you plan to arrive at least five minutes early, and if you cannot make it on time, wait to rejoin the class punctually at the next scheduled break. 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

Bachelor's Theses: I realize that some of you may be eligible to write a thesis in this course. Given the guidelines the economics department has issued, which set fairly high expectations for bachelor's theses, it does not make sense to do so while taking an introductory course (they are designed for advanced electives and presume technical skills). Therefore, I will not supervise bachelor's theses in the context of this course.

Lecture Plan:

Week	Sep	Day	Time	Topic	Sugg. Reading
1	3	<i>Mon</i>	9.15-10.15	Syllabus	L1
			10.30-11.30	Gains from Trade	
			11.45-12.45	Strategic Behavior	
	4	<i>Tue</i>	9.15-10.15	Preference and Choice	L2, L3
			10.30-11.30	Demand	
			11.45-12.45	Applications	
	5	<i>Wed</i>	13.15-14.15	Technology	L4, L5
			14.30-15.30	Profit Maximization	
			15.45-16.45	Applications	
2	11	<i>Tue</i>	13.15-14.15	Equilibrium	L6, L7, L8
			14.30-15.30	Surplus	
			15.45-16.45	Welfare Theorems	
	12	<i>Wed</i>	9.15-10.15	Taxes	L9, L11
			10.30-11.30	Externalities	
			11.45-12.45	Adverse Selection	
	13	<i>Thu</i>	9.00-10.30	Review	
			11.00-12.30	First Exam	
	3*	19	<i>Wed</i>	13.15-14.15	Game Theory
14.30-15.30				Game Theory II	
15.45-16.45				Imperfect Competition	
20		<i>Thu</i>	9.00-10.30	Review	
			11.00-12.30	Second Exam	
4	26	<i>Wed</i>	9.15-10.15	Repeated Games	L10, L12, L14
			10.30-11.30	Risk	
			11.45-12.45	Moral Hazard	
	27	<i>Thu</i>	9.00-10.30	Review	
			11.00-12.30	Third Exam	

L = Lecture notes

* Note: There is no meeting on Fri, the 21st, since I am out of town for a workshop that day.