

MICROECONOMIC ANALYSIS 1-808-07

SYLLABUS

Fall 2009

Course description

Analysis of economic phenomena. Students will learn a powerful tool to better understand economic environments: the economic way of thinking. By mastering the logical principles of economic thinking, students will be able to anticipate the behavior of economic agents (consumers, producers, workers, investors, but also their future employers and employees!) and, thus, better fulfill tasks in managing positions.

The material is presented through examples, applications and in-class discussions. Students will learn to:

- master the economic language in its various forms: intuitive, graphical and mathematical;
- formulate precise arguments concerning many aspects of economic and daily life;
- identify fallacious reasoning;
- form a critical judgment about assertions encountered in the media;
- reason in terms of incentives, and understand how our environment influences our decision making.

Plagiarism

Students are asked to read article 12 of the rules of the HEC Montréal programs regarding plagiarism and to take note of the multiple forms of plagiarism ([12.1](#)) and the penalties that extend to expulsion from HEC ([12.2](#)). All cases of plagiarism will be reported to the program committee, which will analyse the situation and the circumstances and will decide on the sanction to apply.

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Course Material

Required text – available at the HEC-Montréal Coop

Pindyck, R.S.; Rubinfeld, D.L.; *Microeconomics*, 7th ed., Prentice Hall, 2008.

Optional textbook – available at the HEC Montréal Library:

(HBP) Heyne, Boettke and Prychitko, *The Economic Way of Thinking*, 11th ed., Prentice Hall, 2006.

Other resources

1) Course website: <http://zonecours.hec.ca/>

2) Binder #1808B

Complementary material containing hardcopies of the PowerPoint slides used in class and the lecture notes "Firms, Prices and Markets" written by Tim Van Zandt (TVZ).

These class notes are entirely optional as all its contents are freely available on the course webpage (see <http://zonecours.hec.ca/>).

Evaluation

Midterm exam	35%
Final exam	50%
2 Quizzes	6% each
Participation	3%

CALENDAR AND COURSE SCHEDULE

Date	Content
Week 1	<p>PART I : THE MARKET ECONOMY</p> <p>Theme 1: Gains from trade</p> <ul style="list-style-type: none">• Valuation• Trade between one buyer and one seller• Gains from trade• Efficiency conditions• Discussion: valuation or value? <p>References: (TVZ) Chapter 1; (HBP) Chapter 2, pp. 21-30, 34-35.</p>
Week 2	<p>Theme 2: Demand</p> <ul style="list-style-type: none">• Individual demand• Market demand• Factors affecting changes in demand• Elasticities <p>References: (PR) Chapter 2, Sections 2.1 ("The Demand Curve"), 2.4 (except "Supply") and Chapter 4, Sections 4.1 (except "Engel Curves"), and 4.3; (TVZ) Chapter 3.</p> <p>Exercises: (PR) Chapter 4 – Questions 1b), 5, 7 and Exercise 6; (TVZ) 3.5, 3.6 and 3.8</p>
Week 3	<p>Theme 3: Production costs</p> <ul style="list-style-type: none">• Nature and goal of the firm• Short-run v. long-run production• Opportunity costs and sunk costs• Economies of scale <p>References: (PR) Chapter 7, Sections 7.1, 7.2 ("The Shapes of Cost Curves") and 7.4 (except "The Inflexibility of Short-Run Production"); (TVZ) Chapter 4.</p> <p>Exercises: (PR) Chapter 7 – Questions 1, 8; Exercises 1, 4; (TVZ) 4.1, 4.2, 4.3 and 4.6</p>

<p>Week 4</p>	<p>Theme 4: Competitive firms and markets</p> <ul style="list-style-type: none"> • Profit maximization • Conditions for perfect competition • Short-run and long-run competition • Firm and market supply curves • Elasticity of supply <p>References: (PR) Chapter 8, Sections 8.1-8.6 (except “Producer surplus in the Short Run”) and Section 8.7 (only “Long-Run Competitive Equilibrium”); (TVZ) Chapter 5 (except Section 5.6).</p> <p>Exercises: (PR) Chapter 8 – Questions 1, 3, 5, 6 and 14; Exercises 1, 2, 3, 4; (TVZ) 5.1, 5.2 and 5.3.</p> <p>Quiz #1: 6%</p>
<p>Week 5</p>	<p>Theme 4: Competitive firms and markets (continued)</p> <ul style="list-style-type: none"> • Profit maximization • Conditions for perfect competition • Short-run and long-run competition • Firm and market supply curves • Elasticity of supply <p>References: (PR) Chapter 8, Sections 8.1-8.6 (except “Producer surplus in the Short Run”) and Section 8.7 (only “Long-Run Competitive Equilibrium”); (TVZ) Chapter 5 (except Section 5.6).</p> <p>Exercises: (PR) Chapter 8 – Questions 1, 3, 5, 6 and 14; Exercises 1, 2, 3, 4; (TVZ) 5.1, 5.2 and 5.3.</p>
<p>Week 6</p>	<p>Theme 5: Market equilibrium</p> <ul style="list-style-type: none"> • Price as a coordination tool • Effects of changes in market conditions • Competitive markets and efficient allocation of resources <p>References: (PR) Chapter 2, Sections 2.2, 2.3 and 2.6</p> <p>Exercises: (PR) Chapter 2 – Questions 1, 2, 3 and 6; Exercises 2, 4 and 10</p>
<p>Week 7</p>	<p>PART II: ECONOMICS FOR MANAGERS</p> <p>Theme 6: Market power and monopoly</p> <ul style="list-style-type: none"> • Substitutes, elasticity and market power • Marginal revenue and profit maximization • Monopoly v. optimal allocation of resources • Discussions: <ol style="list-style-type: none"> 1. When can we speak of a monopoly? 2. Should your shows always sell out? <p>References: (PR) Chapter 10, Section 10.1 (until example 10.1), 10.2, 10.3 and 10.4 (before “Rent Seeking”).</p> <p>Exercises: (PR) Chapter 10 – Questions 2, 4, 6 and 7; Exercises 3, 4, 5 and 7</p>

	MIDTERM EXAM WEEK
	MIDTERM RECESS
Week 8	<p>Theme 7: Price discrimination</p> <ul style="list-style-type: none"> • Perfect discrimination • Applications/Discussions: the pricing strategy of universities • Explicit segmentation • Applications/Discussions: nightclubs, restaurants • Implicit Segmentation • Applications/Discussions: price menus <p>References: (PR) Chapter 11, Sections 11.1 and 11.2 (except “Determining Relative Prices”).</p> <p>Exercises: (PR) Chapter 11 – Questions 2, 4, 6 and 7; Exercises 1, 3 and 6</p>
Week 9	<p>Theme 8: Strategic interaction, oligopoly and cartels</p> <ul style="list-style-type: none"> • Introduction to game theory: the prisoner’s dilemma • Tension between strategic considerations and social optimum • Cartels: a form of prisoner’s dilemma <p>References: (PR) Chapter 12, Section 12.4</p> <p>Exercises: Available on the course website</p>
Week 10	<p>Theme 9: Risk and uncertainty</p> <ul style="list-style-type: none"> • Definition and measure of risk • Expected utility • Attitudes towards risk • Strategies for avoiding risk: diversification and insurance <p>References : (PR) Chapter 5, Sections 5.1-5.3 (except “The Value of Information”)</p> <p>Exercises : (PR) Chapter 5, Questions 1, 3, 5, 6 and 8; Exercises 2, 5 (a and b), 6 and 7</p>

<p>Week 11</p>	<p>Theme 10: Asymmetric Information (Adverse selection)</p> <ul style="list-style-type: none"> • The market for lemons • Possible solutions: certificates, signalling and screening • Job market solutions: education as a signal, interviews, tests, and statistical discrimination <p>References: (PR) Chapter 17, Sections 17.1 and 17.2</p> <p>Exercises: (PR) Chapter 17, Exercises 1, 2, and 9 (Note: If Harry's and Lew's offer the same level of warranty, consumers will be unable to differentiate the quality of their cars and will pay \$8,500 for a car, regardless of the seller.)</p> <p>Quiz #2: 6%</p>
<p>Week 12</p>	<p>Theme 11: Asymmetric Information (Moral hazard and contracts)</p> <ul style="list-style-type: none"> • The principal-agent problem • Moral hazard • Tension between efficiency and optimal risk sharing • Optimal contract design <p>References: (PR) Chapter 17, Sections 17.3 and 17.4</p> <p>Exercises: (PR) Chapter 17, Exercises 5, 7, 10 and 11</p>
<p style="text-align: center;">FINAL EXAM WEEK</p>	