

Fulbright Economics Teaching Program

Academic year 2015-2016
Fall Term

MICROECONOMICS FOR PUBLIC POLICY

Teaching Team

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Class Meetings

Lecture: Monday and Wednesday, 10:15 – 11:45
Review/Case discussion: Friday, 10:15 – 11:45

Office Hours

	Monday	Tuesday	Wednesday	Thursday	Friday
Đặng Văn Thanh		16:30 – 18:00		16:30 – 18:00	
Huỳnh Thế Du	15:00 – 17:00			15:00 – 17:00	
Phan Ngoc Yen Xuan	15:30 – 17:00		15:30 – 17:00		

Members of the teaching team are also available at other time by appointment.

Course Objectives

This course aims at providing students with the ability to apply microeconomic concepts, principles, and tools in (i) understanding the nature of economic issues discussed in the public sphere; (ii) applying knowledge of microeconomics to conduct public policy analysis; and (iii) applying fundamental knowledge of microeconomics to other courses in the program.

In addition to basic topics such as supply and demand, market equilibrium, consumer and producer, game theory, etc., the course also discusses important issues in public policy such as efficiency and equity, welfare analysis, and market failures. To some extent, social impacts of public policy are also discussed and compared to the standard economic arguments.

Course Description

With the purposes and contents mentioned above, the course is divided into seven parts:

Part one, “Introduction,” discusses some important principles of microeconomics such as people face opportunity cost or respond to incentives when they make economic choices. This part also familiarizes students with the economic way of thinking.

Part two, “*How Markets Work*,” introduces basic microeconomic concepts and tools such as supply and demand, price mechanism, market equilibrium, which are widely used in policy analysis.

Part three, “*Consumer Theory*,” studies how rational consumers behave under certainty. This part also studies how people make choices under uncertainty. This part ends with a wide range of theory applications to real-life problems.

Part four, “*Producer Theory*,” discusses the behavior of firm – the representative of the production sector. This part will discuss production theory, production cost theory, profit maximization objective, and derives the supply curves for individual firms and markets in perfectly competitive markets. This part will end with some beginning lessons regarding game theory.

Part five, “*Competitive Markets, Equity and Efficiency*,” starts with an observation that outcomes of perfectly competitive market are economically efficient, but not equitable. It then goes on to discuss the trade-off between efficiency and equity, which is a key issue of microeconomics and is directly related to policy analysis.

Part six, “Behavioral economics” explains irrational behavior of human. The mainstream economics assumes human being rational as always. However, most of the cases human are not consistent and somehow irrational in their behaviors. This part will introduce and briefly discuss these issues.

Part seven, “*Introduction to Market Failures and role of government*,” discusses common market failures. In general, market may fail under following conditions: (i) monopolistic power, (ii) asymmetric information among the participants in the market; (iii) externalities (negative or positive); and (iv) public goods.

Student requirements

Economics is an analytical and practical subject. Students cannot learn it by simple memorization, nor by cramming at the last minute. Therefore, during the course, *students should try to understand the concepts, principles and tools of microeconomics and develop the ability to apply them to solve many different problems in real life. This requires students to read textbook and required readings, lecture notes; complete assignments; follow discussions in the media with a critical eye and actively apply knowledge gained from the course to actual cases.*

The course is built on a close and consistent structure, in which *new concepts are built on the old ones and contents of the following chapters use knowledge of the previous.* It is therefore essential that students must continuously study and review the course material. Students are expected to attend class regularly, read the required readings carefully prior to class meeting, actively participate in class discussions, and complete assignments as required.

Text Books and Required Readings

There are two main and one complementary textbooks for this course:

1. *Microeconomics*, Eighth edition, by Robert S. Pindyck and Daniel L. Rubinfeld (referred to as **PR**), Pearson, 2014.
2. *Principles of Economics*, Sixth edition, by N. Gregory Mankiw (referred to as

Mankiw), Cengage Learning, 2014.

3. *Microeconomic for Public Decisions*, by Anne C. Steinemann, William C. Apgar, and H. James Brown (referred to as **SAB**), South-Western Publishers, 2005.

There are three types of reading: *required readings* are chapters in the textbooks and indicated in the syllabus. It is very important for students to complete the assigned readings **prior** to class discussion. During class discussion, teachers can invite any participant to explain a term or state his/her own view on issues discussed in the required readings.

Case studies are also required readings. Specific requirements for each case and the case itself will be distributed to students in advance.

The second is *readings for discussion*. These readings help inspire class discussion. The readings can be some articles (extracts from newspapers and mass media in Vietnam and other countries) or mini cases. Distribution of these readings will be either before or during class depending on their length.

The third type of reading include *in-depth or more advance materials* which are supposed to help students expand their understanding or know thoroughly on some selected policy issues or purely for providing the background of policy discussions. These readings are helpful to those who want to explore issues which are not discussed at length during the lectures due to time limitation. Students are encouraged to consult the teachers for additional references.

Problem sets

There will be six problem sets that help students review and apply important concepts and analytical tools discussed in the lectures and assigned readings into real-life issues. Students must complete these problem sets **by themselves** and submit their solutions before 8:20 AM on the due date. Students are **not allowed to copy** the answers to the problem sets from other students. Students should carefully review the *Student's Handbook* to avoid unnecessary violations.

Additionally, there will be *five case studies*. The assignments will be distributed to students in advance, and they are asked to make short writings (about 500 words) to prepare for class discussions. The assignments will be graded.

Sometimes, students will be required to do quick tests which usually last from 5 to 10 minutes at the beginning of the class. The purpose of the test is to examine their reading and understanding on lessons.

Grading:

The final grade will be based on the following weights:

- Class participation: 5%
- Case Study: 10%
- Problem sets & Quick test: 20%
- Mid-term exam: 30%
- Final exam: 35%

Case Study and problem set schedule:

Problem set / Case Study	Distribution	Due
Problem set 1	5/10	19/10
Problem set 2	19/10	2/11
Problem set 3	2/11	16/11
Problem set 4	30/11	14/12
Problem set 5	14/12	28/12
Problem set 6	28/12	11/1
Case Study 1	16/10	23/10
Case Study 2	30/10	6/11
Case Study 3	4/12	11/12
Case Study 4	11/12	18/12
Case Study 5	6/1	13/1

SYLLABUS AND SCHEDULE

Week	Mon	Tue	Wed
1	<p>05th Oct. Introduction</p> <p>Microeconomics and Public Policy</p> <p>Mankiw, Ch.1 PR, Ch. 1 <i>PS1 distributed</i></p> <p>Huynh The Du</p>	<p>07th Oct. Introduction</p> <p>Important Principles of Microeconomics</p> <p>Mankiw, Ch.1 PR, Ch. 1</p> <p>Huynh The Du</p>	<p>09th Oct. No Class</p>
2	<p>12th Oct. How Markets Work</p> <p>Demand, Supply and Market Equilibrium</p> <p>PR, Ch. 2 <i>Dan Viet News, "The Delta: Hot Pepper and Peanut in bad seasons and low prices" Apr. 2012</i></p> <p>Dang Van Thanh</p>	<p>14th Oct. How Markets Work</p> <p>Demand, Supply and Market Equilibrium</p> <p>PR, Ch. 2</p> <p>Dang Van Thanh</p>	<p>16th Oct. Review</p> <p><i>Case study 1 distributed</i></p> <p>Dang Van Thanh</p>
3	<p>19th Oct. How Markets Work</p> <p>Elasticity and Its Applications</p> <p>PR, Ch. 2</p> <p><i>PS1 due, PS2 distributed</i></p> <p>Dang Van Thanh</p>	<p>21st Oct. Consumer Theory</p> <p>The Theory of Consumer Choice</p> <p>PR, Ch. 3</p> <p>Dang Van Thanh</p>	<p>23rd Oct. Case study 1</p> <p>The coffee crisis</p> <p><i>Case study 1 due</i></p> <p>Huynh The Du</p>
4	<p>26th Oct. Consumer Theory</p> <p>The Theory of Consumer Choice</p> <p>PR, Ch. 3</p>	<p>28th Oct. Consumer Theory</p> <p>Individual and Market Demand</p> <p>PR, Ch. 4 <i>The New Work Times,</i></p>	<p>30th Oct. Review</p> <p><i>Case study 2 distributed</i></p>

Week	Mon	Tue	Wed
	Dang Van Thanh	<i>“Google, the new master of network effects”, 07/2008</i> Dang Van Thanh	Huynh The Du
5	2nd Nov. Consumer Theory Compensation Variation, Equivalence Variation Mankiw, Ch. 21 <i>Bloomberg News, “Cash is better than food stamps in helping poor”, 02/2012</i> PS2 due, PS3 distributed Dang Van Thanh	4th Nov. Consumer Theory Compensation Variation, Equivalence Variation Mankiw, Ch. 21 Dang Van Thanh	6th Nov. Stuff or Cash Case study 2 due Huynh The Du
6	9th Nov. Consumer Theory Choice under Uncertainty PR, Ch.5 Teacher’s handout <i>Slate, “Is Powerball a Mug's Game?“, 08/2001</i> Dang Van Thanh	11th Nov. Producer Theory Production PR, Ch.6 Dang Van Thanh	13th Nov. Review Huynh The Du
7	16th Nov. Producer Theory The Cost of Production PR, Ch. 7 PS3 due Dang Van Thanh	18th Nov. Producer Theory Profit Maximization and Competitive Supply PR, Ch. 8 Dang Van Thanh	20th Nov. Mid-term Review Dang Van Thanh and Huynh The Du
8	23rd Nov.	Wednesday, 25th Nov.	27th Nov.

Week	Mon	Tue	Wed
		Mid-term Exam 08:30 –10:30	
9	<p style="text-align: center;">30th Nov. Competitive Markets and Welfare Economics</p> <p>Analysis of Competitive Markets</p> <p>PR, Ch. 9</p> <p style="color: green;">PS4 distributed</p> <p style="text-align: center;">Huynh The Du</p>	<p style="text-align: center;">2nd Dec. Competitive Markets and Welfare Economics</p> <p>Analysis of Competitive Markets</p> <p>PR, Ch. 9</p> <p style="text-align: center;">Huynh The Du</p>	<p style="text-align: center;">4th Nov. Review</p> <p style="color: green;">Case study 3 distributed</p> <p style="text-align: center;">Dang Van Thanh</p>
10	<p style="text-align: center;">7th Dec. Behaviorial economics</p> <p>PR (8th), Ch. 5 Samson, Part 1</p> <p style="text-align: center;">Huynh The Du</p>	<p style="text-align: center;">9th Dec. Behaviorial economics</p> <p>Samson, Part 1</p> <p style="text-align: center;">Huynh The Du</p>	<p style="text-align: center;">11th Dec. Review</p> <p style="text-align: center;">Powdered milk regulation in Vietnam</p> <p style="color: green;">Case 3 due, Case 4 distributed</p> <p style="text-align: center;">Huynh The Du</p>
11	<p style="text-align: center;">14th Dec. Market structure</p> <p>Monopoly</p> <p>PR, Ch. 10</p> <p style="color: green;">PS4 due, PS5 distributed</p> <p style="text-align: center;">Dang Van Thanh</p>	<p style="text-align: center;">16th Dec. Market structure</p> <p>Pricing with Market Power</p> <p>PR, Ch. 11</p> <p style="text-align: center;">Dang Van Thanh</p>	<p style="text-align: center;">18th Dec. Review</p> <p style="text-align: center;"><i>Mobile phone services in Vietnam</i></p> <p style="color: green;">CS 4 due</p> <p style="text-align: center;">Huynh The Du</p>
12	<p style="text-align: center;">21st Dec. Market Structure</p> <p>Monopolistic Competition and Oligopoly</p> <p>PR, Ch. 12</p> <p style="text-align: center;">Dang Van Thanh</p>	<p style="text-align: center;">23rd Dec. Market Structure</p> <p>Monopolistic Competition and Oligopoly</p> <p>PR, Ch. 12</p> <p style="text-align: center;">Dang Van Thanh</p>	<p style="text-align: center;">25th Dec. No class</p>

Week	Mon	Tue	Wed
13	<p>28th Dec. Game Theory (1) PR, Ch. 13</p> <p><i>The New York Times,</i> “Why We’re So Nice: We’re Wired to Cooperat”, 07/2002.</p> <p><i>The New York Times,</i> “Gaming the system”, 02/2013.</p> <p>PS5 due, PS6 distributed</p> <p>Huynh The Du</p>	<p>30th Dec. Game Theory (1) PR, Ch. 13</p> <p><i>Slate,</i> “Game Theory for Swingers: What states should the candidates visit before Election Day?”, 10/2004</p> <p><i>Slate,</i> “World Cup Game Theory”, June 24, 2006</p> <p>Huynh The Du</p>	<p>1st Jan. 2016 No class</p>
14	<p>4th Jan. Game Theory (3) PR, Ch. 13 Teacher’s handout <i>Kevin Zollman, “Applying game theory to Syria”, 09/2013</i></p> <p><i>The Economist,</i> “Economic focus: Bidding adieu?”, 06/2002</p> <p>Huynh The Du</p>	<p>6th Jan Introduction to Market Failures</p> <p>Asymmetric Information</p> <p>PR, Ch. 17 <i>Articles on “Market for Helmet in Vietnam”</i></p> <p>CS 5 distributed</p> <p>Dang Van Thanh</p>	<p>8th Jan. Review</p> <p>Dang Van Thanh</p>
15	<p>11st Jan. Introduction to Market Failures</p> <p>Externalities and Public Goods</p> <p>PR, Ch. 18</p> <p>PS 6 due</p> <p>Huynh The Du</p>	<p>13th Jan. Case study 4</p> <p>Dealing with traffic congestion in Hanoi and Ho Chi Minh City</p> <p>Congestion fees</p> <p>CS 5 due</p> <p>Huynh The Du</p>	<p>15th Jan. Final review</p> <p>Dang Van Thanh and Huynh The Du</p>
16	<p>Thứ 2, 18/1/2016 BÀI THI CUỐI KỲ 8:30-11:30</p>		