

Fulbright Economics Teaching Program

Academic year 2014-2015

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	
Lê Thị Quỳnh Trâm					14:30 – 17:30
Lê Phan Ái Nhân	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*, Fifth edition, by Robert S. Pindyck and Daniel L. Rubinfeld (referred to as **PR**), Prentice-Hall, 2001.
2. *Principles of Economics*, Second edition, by N. Gregory Mankiw (referred to as **Mankiw**), South-Western, 2000.
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	29/09	13/10
Problem set 2	13/10	27/10
Problem set 3	27/10	10/11
Problem set 4	24/11	8/12
Problem set 5	8/12	22/12
Problem set 6	22/12	5/1
Case Study 1	10/10	17/10
Case Study 2	24/10	31/10
Case Study 3	28/11	5/12
Case Study 4	5/12	12/12
Case Study 5	31/12	7/1

SYLLABUS AND SCHEDULE

Week	Mon	Tue	Wed
1	29th Sept. Introduction Microeconomics and Public Policy Mankiw, Ch.1 PR, Ch. 1 <i>PS1 distributed</i> Huynh The Du	1st Oct. Introduction Important Principles of Microeconomics Mankiw, Ch.1 PR, Ch. 1 Huynh The Du	3rd Oct. No Class
2	6th Oct. How Markets Work Demand, Supply and Market Equilibrium PR, Ch. 2 <i>Dan Viet News, "The Delta: Hot Peper and Peanut in bad seasons and low prices" Apr. 2012</i> Dang Van Thanh	8th Oct. How Markets Work Demand, Supply and Market Equilibrium PR, Ch. 2 Dang Van Thanh	10th Oct. Review <i>Case study 1 distributed</i> Le T. Quynh Tram
3	13th Oct. How Markets Work Elasticity and Its Applications PR, Ch. 2 <i>PS1 due, PS2 distributed</i> Le T. Quynh Tram	15th Oct. Consumer Theory The Theory of Consumer Choice PR, Ch. 3 Dang Van Thanh	17th Oct. Case study 1 The coffee crisis <i>Case study 1 due</i> Huynh The Du
4	20th Oct. Consumer Theory The Theory of Consumer Choice PR, Ch. 3	22th Oct. Consumer Theory Individual and Market Demand PR, Ch. 4 <i>The New Work Times, "Google, the new master of</i>	24th Oct. Review <i>Case study 2 distributed</i>

Week	Mon	Tue	Wed
	Dang Van Thanh	<i>network effects", 07/2008</i> Dang Van Thanh	Dang Van Thanh
5	27th Oct. 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 Le T. Quynh Tram	29th Oct. Consumer Theory Compensation Variation, Equivalence Variation Mankiw, Ch. 21 Le T. Quynh Tram	31st Oct. Review Case study 2 due Huynh The Du
6	3th Nov. Consumer Theory Choice under Uncertainty PR, Ch.5 Teacher's handout <i>Slate, "Is Powerball a Mug's Game?", 08/2001</i> Le T. Quynh Tram	5th Nov. Producer Theory Production PR, Ch.6 Dang Van Thanh	7th Nov. Review Dang Van Thanh
7	10st Nov. Producer Theory The Cost of Production PR, Ch. 7 PS3 due Dang Van Thanh	12th Nov. Producer Theory Profit Maximization and Competitive Supply PR, Ch. 8 Dang Van Thanh	14th Nov. Mid-term Review Dang Van Thanh
8		Wednesday, 19th Nov. Mid-term Exam 08:30 –10:30	

Week	Mon	Tue	Wed
9	24th Nov. Competitive Markets and Welfare Economics Analysis of Competitive Markets PR, Ch. 9 <i>PS4 distributed</i> Le T. Quynh Tram	26th Nov. Competitive Markets and Welfare Economics Analysis of Competitive Markets PR, Ch. 9 Le T. Quynh Tram	28th Nov. Review <i>Case study 3 distributed</i> Dang Van Thanh
10	1st Dec. Behaviorial economics PR (8 th), Ch. 5 Samson, Part 1 Huynh The Du	3rd Dec. Behaviorial economics Samson, Part 1 Huynh The Du	5th Dec. Review <i>Case 3 due, Case 4 distributed</i> Huynh The Du
11	8th Dec. Market structure Monopoly PR, Ch. 10 <i>PS4 due, PS5 distributed</i> Dang Van Thanh	10th Dec. Market structure Pricing with Market Power PR, Ch. 11 Dang Van Thanh	12th Dec. Review <i>Mobile phone services in Vietnam</i> <i>CS 4 due</i> Le Thi Quynh Tram
12	15th Dec. Market Structure Monopolistic Competition and Oligopoly PR, Ch. 12 Dang Van Thanh	17th Dec. Market Structure Monopolistic Competition and Oligopoly PR, Ch. 12 Dang Van Thanh	19th Dec. Review Le Thi Quynh Tram
13	22nd Dec. Game Theory (1) PR, Ch. 13 <i>The New York Times, "Why We're So Nice: We're Wired to Cooperat", 07/2002.</i>	24th Dec. Game Theory (1) PR, Ch. 13 <i>Slate, "Game Theory for Swingers: What states should the candidates visit before</i>	26th Dec. No class

Week	Mon	Tue	Wed
	<p><i>The New York Times</i>, "Gaming the system", 02/2013.</p> <p>PS5 due, PS6 distributed</p> <p>Le T. Quynh Tram</p>	<p><i>Election Day?</i>",10/2004</p> <p><i>Slate</i>, "World Cup Game Theory", June 24, 2006</p> <p>Le T. Quynh Tram</p>	
14	<p>29th Dec. Game Theory (3) PR, Ch. 13 Teacher's handout <i>Kevin Zollman</i>, "Applying game theory to Syria", 09/2013</p> <p><i>The Economist</i>, "Economic focus: Bidding adieu?", 06/2002</p> <p>Le T. Quynh Tram</p>	<p>31st Jan./2014 Introduction to Market Failures</p> <p>Asymmetric Information</p> <p>PR, Ch. 17 Articles on "Market for Helmet in Vietnam"</p> <p>CS 5 distributed</p> <p>Dang Van Thanh</p>	<p>2nd Jan. No class</p>
15	<p>5th Jan. Introduction to Market Failures</p> <p>Externalities and Public Goods</p> <p>PR, Ch. 18</p> <p>PS 6 due</p> <p>Dang Van Thanh</p>	<p>7th 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>9th Jan. Final review</p> <p>Dang Van Thanh</p>
16	<p>Monday, 12nd Jan., 2015</p> <p>FINAL EXAM 8:30 – 11:30</p>		