

## **Fulbright Economics Teaching Program**

**Academic year 2011-2013**

**Fall Term**

### **MICROECONOMICS FOR PUBLIC POLICY**

#### **Teaching Team**

Instructors:	Vu Thanh Tu Anh	E-Mail : <a href="mailto:anhvt@fets.vnn.vn">anhvt@fets.vnn.vn</a>
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#### **Class Meetings**

Lecture: Tuesday and Thursday, 8:30 – 10:00

Review/Application: Friday, 10:15 – 11:45

#### **Office Hours**

	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
Vu Thanh Tu Anh		16:30–17:30		16:30–17:30	16:30–17:30	
Dang Van Thanh	16:00–17:30				17:30–19:00	
Le Anh Quy		16:30–18:00		16:30–18:00		
Vu Thi Mai Tram						8:00–11:00

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 and then ends with the classic and important theoretical points of modern economics, namely parties can gain from free and voluntary trade.

**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**, “*Factor Markets*,” studies the markets for productive factors, namely capital and labor. For example, it will study how workers make decision on choosing their job or working time while taking into account the opportunity cost of other employment and the leisure opportunities. It will also discuss the determinants of workers’ wages and salaries and the role of productivity in improving workers’ income and living standards.

**Part six**, “*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 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.

## **Course Outline**

### ***I. Introduction to Microeconomics for Public Policy***

1. Microeconomics and Public Policy
2. Important Principles of Microeconomics
3. Thinking Like an Economist
4. Interdependence and Gains from Trade

### ***II. How Markets Work***

1. Demand, Supply and Market Equilibrium
2. Elasticities of Supply and Demand

### ***III. Consumer Theory***

1. The Theory of Consumer Choice
2. Individual Demand and Market Demand
3. Choice under Uncertainty
4. Applications of Consumer Theory

**IV. *Producer Theory***

1. Theory of Production
2. Costs of Production
3. Profit Maximization and Competitive Supply

**V. *Factor Markets***

1. The Markets for Factors of Production
2. Earnings and Discrimination on Earnings

**VI. *Perfectly Competitive Market and Welfare Economics***

1. Analysis of Competitive Markets
2. Introduction to Welfare Economics
3. Efficiency and Equity

**VII. *Market Failures***

1. Market Power
2. Asymmetric Information
3. Externalities and Public Goods
4. Role of Government on Correcting Market Failures

**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 Regulations and Guidelines in the Student's Handbook to avoid unnecessary violations.

Additionally, there will be *some 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.

### **Short paper: Economics around us**

Students are required to apply concepts, models and knowledge of microeconomics to real cases, whether from real life or from their own business. The purpose of this short paper is to help students think like an economist and recognize that knowledge gained from microeconomics in particular and at school in general can be used to develop awareness and understanding of many economic, political, cultural and social issues outside the lecture hall.

### **Grading:**

The final grade will be based on the following weights:

- Class participation: 7,5%

- Economics around us: 7,5%
- Policy memo: 10%
- Problem sets: 20%
- Mid-term exam: 25%
- Final exam: 30%

## **SYLLABUS AND SCHEDULE**

<b>Week</b>	<b>Tuesday</b>	<b>Thursday</b>	<b>Friday</b>
<b>1</b>	<b>4/10</b>  <b>Introduction</b>  Microeconomics and Public Policy  Mankiw, Ch.1 PR, Ch. 1	<b>6/10</b>  <b>Introduction</b>  Important Principles of Microeconomics  Mankiw, Ch.1 PR, Ch. 1	<b>7/10</b>  <b>No Class</b>   <i><b>PS 1 assigned</b></i>
<b>2</b>	<b>11/10</b>  <b>Introduction</b>  Thinking Like an Economist  Mankiw, Ch. 2	<b>13/10</b>  <b>Introduction</b>  Interdependence and the Gains from Trade  Mankiw, Ch. 3	<b>14/10</b>  <b>How Markets Work</b>  Demand, Supply and Market Equilibrium  PR, Ch. 2
<b>3</b>	<b>18/10</b>  <b>How Markets Work</b>  Demand, Supply and Market Equilibrium  PR, Ch. 2	<b>20/10</b>  <b>How Markets Work</b>  Elasticity and Its Applications  PR, Ch. 2	<b>21/10</b>  <b>Case study 1</b>  The coffee crisis  <i><b>PS 1 due, PS 2 assigned</b></i>
<b>4</b>	<b>25/10</b>  <b>Consumer Theory</b>  The Theory of Consumer Choice  PR, Ch. 3	<b>27/10</b>  <b>Consumer Theory</b>  The Theory of Consumer Choice  PR, Ch. 3	<b>28/10</b>  <b>Consumer Theory</b>  Individual and Market Demand  PR, Ch. 4
<b>5</b>	<b>1/11</b>  <b>Consumer Theory</b>  Choice under Uncertainty  PR, Ch. 5 Teacher's handout	<b>3/11</b>  <b>Consumer Theory</b>  Compensation Variation, Equivalence Variation  Mankiw, Ch. 21	<b>4/11</b>  <b>Producer Theory</b>  Production  PR, Ch. 6 <i><b>PS 2 due, PS 3 assigned</b></i>

Week	Tuesday	Thursday	Friday
6	<b>8/11</b>  <b>Producer Theory</b>  The Cost of Production  PR, Ch. 7	<b>10/11</b>  <b>Producer Theory</b>  Profit Maximization and Competitive Supply  PR, Ch. 8	<b>11/11</b>  <b>Mid-term Review</b>   <i>PS 3 due</i>
7	<b>Wednesday, 16/11</b>  <b>Mid-term Exam</b> <b>08:30 –11:00</b>		
8	<b>22/11</b>  <b>Competitive Markets and Welfare Economics</b>  Analysis of Competitive Markets  PR, Ch. 9	<b>24/11</b>  <b>Competitive Markets and Welfare Economics</b>  Analysis of Competitive Markets  PR, Ch. 9	<b>25/11</b>  <b>Case study 2</b>  Rural Electrification in Nicaragua  <i>PS 4 assigned</i>
9	<b>29/11</b>  <b>Competitive Markets and Welfare Economics</b>  Equity and Efficiency  Teacher's handout	<b>1/12</b>  <b>Factor Markets</b>  The Markets for the Factors of Productions  PR, Ch. 14, 15	<b>2/12</b>  <b>General Equilibrium and Economic Efficiency</b>  PR, Ch. 16
10	<b>6/12</b>  <b>Case study 3</b>  California Water Pricing	<b>8/12</b>  <b>Market structure</b>  Monopoly  PR, Ch. 10	<b>9/12</b>  <b>Market structure</b>  Pricing with Market Power  PR, Ch. 11  <i>PS 4 due, PS 5 assigned</i>

Week	Tuesday	Thursday	Friday
11	<b>13/12</b>  <b>Market Structure</b>  Monopolistic Competition and Oligopoly  PR, Ch. 12	<b>15/12</b>  <b>Case study 4</b>  Regulation of Milk Powder Market in Vietnam	<b>16/12</b>  <b>Game Theory (1)</b>   Teacher's handout
12	<b>20/12</b>  <b>Game Theory (2)</b>  Teacher's handout	<b>22/12</b>  <b>Game Theory (3)</b>  Teacher's handout	<b>23/12</b>  <b>Introduction to Market Failures</b>  Asymmetric Information  PR, Ch. 17  <i>PS 5 due, PS 6 assigned</i>
13	<b>27/12</b>  <b>Case study 5</b>  Motorbike Helmet Market in Vietnam	<b>29/12</b>  <b>Introduction to Market Failures</b>  Externalities and Public Goods  PR, Ch. 18	<b>4/12</b>  <b>Case study 6</b>  Congestion -Fees
14	<b>3/1/2012</b>  <b>No Class</b>	<b>5/1</b>  <b>No Class</b>	<b>6/1</b>  <b>No Class</b>  <i>PS 6 due</i>
15	<b>Monday, 9/1/2012</b>  <b>FINAL EXAM</b> <b>8:30 – 11:00</b>		