

Fulbright Economics Teaching Program

**Academic year 2010-2011
Fall Term**

MICROECONOMICS FOR PUBLIC POLICY

Teaching Team

Instructors: Dang Van Thanh, Huynh The Du
Tutors: Tran Mai Huy, Dang Thi Manh

Class Meetings

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

Office hours

Dang Van Thanh : Monday and Wednesday, 16:00 – 17:30
Huynh The Du : Friday, 15:15-17:45
Tran Mai Huy : Tuesday and Thursday, 17:00-18:30
Dang Thi Manh : Thursday, 15:30 – 17:00; Saturday, 15:00-16:30

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

Course Objectives

This course aims to provide 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) conducting public policy analysis; and (iii) applying fundamental knowledge of microeconomics to other courses in the program.

Course Description

The course is divided into eight parts:

Part one, “*How Markets Work*,” introduces basic microeconomic concepts and tools such as supply and demand models, how markets work through the price mechanism, and market equilibrium, which are widely used in policy analysis.

Part two, “*Consumer Theory*,” studies how rational consumers behave under certainty and then derives the market demand curve of the product. 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 three, “*Producer Theory*,” discusses the behavior of firm – the representative of the production sector. This part will discuss production theory, cost minimization and profit maximization, and derives the supply curves for individual firms and markets in perfectly competitive markets.

Part 4 – “*Competitive market analysis*” demonstrates the efficiency of the competitive market and analyses the impact of the government’s policies on markets.

Part 5 – “*Market structure*” completes the study of producer behavior in complete monopoly markets, monopolistic competition and oligopoly.

Part 6 – “*Market of production factors*,” studies the markets for productive factors, namely labor. As same as in the product market, in the market of production factors, the equilibrium price and output are determined by the relationship between the supply and demand of production factors. The main analysis of this part is about the labor demand side.

Part 7 – “*General equilibrium and economic efficiency*” starts with an observation that the outcomes of idealized competitive markets are efficient. However, these outcome are not necessarily equitable. It then goes on to discuss the trade-off between efficiency and equity, which is a key issue of microeconomics that is related directly to policy analysis.

Part 8 – “*Introduction to Market Failures*,” discusses common market failures. Markets may fail under the following conditions: (i) existence of market power; (ii) asymmetric information among the participants in the market; (iii) externalities (negative or positive); and (iv) public goods.

Course Outline

Part I. How Markets Work

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

Part II. Consumer Theory

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

Part III. Producer Theory

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

Part IV. Analysis of Competitive Markets

Part V. Market structure

1. Monopolistic market
2. Market of competitive monopoly and oligopoly

Part VI. Market of production factors

Part VII. General equilibrium and economic efficiency

Part VIII. Market failures

1. Market power
2. Asymmetric information

3. Externalities
4. Public goods

Student requirements

Economics is an analytical and practical subject. Students cannot learn by simple memorization, nor can they survive by last minute cramming. Therefore, during the whole course, students must understand microeconomic concepts, principles, and tools and develop the ability to apply them to resolve various problems in real life. This requires a great deal of reading, practicing, solving problem sets and following debates in the media with a critical eye.

The course material is accumulative: new concepts are built on the old ones, It is therefore essential that students regularly review the course material. Students are expected to attend class regularly, read the required readings carefully prior to class meetings, actively participate in class discussions, and complete assignments. The review sessions are optional.

Text books

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.

Problem sets

There will be six problem sets that help students review and apply important concepts discussed in the lectures and assigned readings into real-life issues. *Students must 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 *eight case assignments*. The assignments will be distributed to students in advance, and they are asked to make short writings (about 500 words) preparing for class discussions. The assignments will be graded.

Gradings:

The final grade will be based on the following weights:

- Class participation: 15%
- Policy memo: 15%
- Problem sets: 15%
- Mid-term exam: 25%
- Final exam: 30%

SYLLABUS AND SCHEDULE

Week	Monday	Wednesday	Friday
1	<p>04/10</p> <p>Introduction</p> <p>Introduction of Economics and Microeconomics</p> <p>PR, Ch. 1 Mankiw, Ch.2</p> <p><i>PS 1 and policy memo 1 assigned</i></p>	<p>06/10</p> <p>Market mechanism</p> <p>Demand, Supply and Market Equilibrium</p> <p>PR, Ch. 2</p>	<p>08/10</p> <p>Review, discussion</p> <p>Discuss policy memo 1</p> <p><i>Policy memo 1 due</i></p>
2	<p>11/10</p> <p>Market mechanism</p> <p>Demand, Supply and Market Equilibrium</p> <p>PR, Ch. 2</p>	<p>13/10</p> <p>Market mechanism</p> <p>Elasticity of Supply and Demand and Its Applications</p> <p>PR, Ch. 2</p>	<p>15/10</p> <p>Review, discussion</p> <p>Review</p> <p><i>PS 1 due</i></p>
3	<p>18/10</p> <p>Consumer theory</p> <p>The Theory of Consumer Choice</p> <p>PR, Ch. 3</p> <p><i>PS 2 and policy memo 2 assigned</i></p>	<p>20/10</p> <p>Consumer theory</p> <p>Individual and Market Demand</p> <p>PR, Ch. 4</p>	<p>22/10</p> <p>Review, discussion</p> <p>Discuss policy memo 2</p> <p><i>Policy memo 2 due</i></p>
4	<p>25/10</p> <p>Consumer theory</p> <p>Choice under Uncertainty</p> <p>PR, Ch. 5</p>	<p>27/10</p> <p>Consumer theory</p> <p>Applications of Consumer Theory</p> <p>Mankiw, Ch. 21</p>	<p>29/10</p> <p>Review, discussion</p> <p>Review</p> <p><i>PS 2 due</i></p>
5	<p>01/11</p> <p>Consumer theory</p> <p>Some Applications of Consumer Theory</p> <p>Mankiw, Ch. 21</p>	<p>03/11</p> <p>Producer theory</p> <p>Production Theory</p> <p>PR, Ch. 6</p>	<p>05/11</p> <p>Review, discussion</p> <p>Discuss policy memo 3</p> <p><i>Policy memo 3 due</i></p>

Week	Monday	Wednesday	Friday
	<i>PS 3 and policy memo 3 assigned</i>		
6	08/11 Producer theory Production Theory and Production Cost PR, Ch. 6,7	10/11 Producer Theory Production Cost PR, Ch. 7	12/11 Review, discussion Review <i>Policy memo 4 assigned</i>
7	15/11 Producer theory Profit Maximization and Competitive Supply PR, Ch. 8	17/11 Review, discussion Discuss Policy Memo 4 <i>Policy memo 4 due</i>	19/11 Review, discussion <i>PS 3 due</i>
8	22/11 Quantitative methods Midterm exam	24/11 Micro midterm exam 08:30 –10:30	26/11 Macro midterm exam
9	29/11 Competitive Markets and Welfare Economics Analysis of Competitive Markets PR, Ch. 9 <i>PS 4 and policy memo 5 assigned</i>	01/12 Competitive Markets and Welfare Economics Analysis of Competitive Markets PR, Ch. 9	03/12 Review, discussion Discuss policy memo 5 <i>Policy memo 5 due</i>
10	06/12 Market structure Monopoly PR, Ch. 10	08/12 Market structure Pricing with Market Power PR, Ch. 11	10/12 Review, discussion Review <i>PS 4 due</i>
11	13/12 Market Structure Monopolistic Competition And Oligopoly	15/12 Market Structure Monopolistic Competition And Oligopoly	17/12 Review, discussion Discuss policy memo 6

Week	Monday	Wednesday	Friday
	PR, Ch. 12 <i>PS 5 and policy memo 6 assigned</i>	PR, Ch. 12	<i>Policy memo 6 due</i>
12	20/12 Market of Production Factors PR, Ch. 14 Mankiw, Ch. 18	22/12 General Equilibrium and Economic Efficiency PR, Ch. 16	24/12 Review, discussion Review <i>PS 5 due</i>
13	27/12 Holiday	29/12 Holiday	31/12 Holiday
14	03/01 Economic Efficiency and Social Fairness PR, Ch. 16 <i>PS 6 and policy memo 7 assigned</i>	05/01 Market Failure Monopoly and Assymmetric Information PR, Ch. 10, 17	07/01 Review, discussion Discuss policy memo 7 <i>Policy memo 7 due</i> <i>policy memo 8 assigned</i>
15	10/01 Market failure Externality and Public Goods PR, Ch. 18	12/01 Review, discussion Discuss policy memo 8 <i>Policy memo 8 due</i>	14/01 Review for final exam <i>PS 6 due</i>
16	17/01 Final Exam 08:30 –11:00		