Unit Outline*

ECON2233

Microeconomics: Policy and Applications

Semester 1, 2011
Campus: Crawley

Unit Coordinator
Assistant Professor Sam-Ho Lee

Business School
www.business.uwa.edu.au

* This Unit Outline should be read in conjunction with the Business School Unit Outline Supplement available on the Current Students web site http://www.business.uwa.edu.au/students
UNIT DESCRIPTION

Introduction

“Microeconomics is the study of the allocation of scarce resources.” (from the text book) Economic agents should make their own allocation decisions. These decisions will interact with one another and result in an allocation of a society. Therefore, the aim of this unit is to 1) understand how these agents make their allocation decisions, and 2) how these decisions interact and result in a social outcome.

This is an intermediate level microeconomics course, which builds on the material presented at first year level. Although rigorous, the course will minimise the use of calculus and restrict the use of other mathematical techniques. However, it can be helpful to know mathematical skills covered in ECON 1111 or equivalent. It is also recommended that students be equipped with necessary mathematical skills for the more advanced courses such as Microeconomics in the third year or in Honours.

As well as providing a foundation for more advanced training in microeconomics, the content of this course provides useful skills not only for future managers, but for the layperson seeking to comprehend intelligent media comment on various economic issues.

Unit content

The following topics will be covered in the order listed below. The relevant chapters in the text are indicated.

Part A: Perfect competition and the efficiency of market mechanism

This part will discuss the economics decisions of two major economic agents (consumer and firm), and the resulting outcome of the interaction of these decisions in the market. In a competitive environment, we will see this outcome is an “efficient” one.

Topic one: Supply and demand

This topic introduces the basic problem of microeconomics and general economic way of thinking to deal with that problem. Then the most basic framework of microeconomics is introduced; supply and demand.

Relevant chapters: 1 and 2.1-2.4

Topic two: Consumer behaviour I

We turn to the decision problem behind supply and demand curve. We will see how these two curves emerge as a result of economic agents’ decisions. We start with the decision problem behind demand curve: consumer choice. Examples of the uses to which the theory may be put, together with some of the difficulties involved, will also be discussed.

Relevant chapter: 4.1-4.4

Topic three: Consumer behaviour II

Further implications and applications of consumer theory are developed. Examples include the theory of income and substitution effects for price changes, and measures of their impact on consumer welfare.

Relevant chapters: 5.1-5.2, 3.2, 5.3-5.4 and 9.1

Topic four: The theory of the firm

The decision problem behind supply curve is discussed; producer choice. The technological characteristics of the firm, and their links with the firm’s cost curves, are summarised. The firm’s decision problem under perfectly competitive environment will be studied.

Relevant chapters: 6, 7, 8.1-8.2, 3.3 and 9.2
**Topic five: The efficiency of price mechanism under perfect competition**
As supply and demand curve is formally derived, the basic framework of supply and demand is revisited. It is discussed why market equilibrium is efficient. It is also discussed what happens if outside intervention such as tax or price control disrupts an equilibrium and its efficiency.
Relevant chapters: 9.3, 2.5, 3.5, 9.5

**Topic six: General equilibrium**
When all markets in an economy are in equilibrium simultaneously, the economy is said to be in general equilibrium. This topic reviews the concepts involved in the analysis of general equilibrium and shows the efficiency of market equilibrium is extended to a general equilibrium setting.
Relevant chapter: 10.1-10.4
Reference: Waldman 19.3

**Part B: Cases of market failure**
In part A, we see the efficiency of market economy as a way of aggregating individual's (selfish and rational) decisions. In part B, we investigate the cases where the outcome of market mechanism may not be efficient, which we call market failure.

**Topic seven: Imperfect competition I – monopoly and price discrimination**
The first case of market failure is imperfect competition. If a firm does not take price as given but affect the price level by its action, then price mechanism is not efficient any more. How the monopolistic firm sets the price and how it affects the efficiency of the market will be discussed.
Relevant chapters: 11.1, 11.3-11.7, and 12.1-12.5

**Topic eight: Imperfect competition II – oligopoly and game theory**
If there are a few suppliers instead of a sole supplier, firms’ optimal pricing decisions can interact with one another. This situation can be framed in the language of game theory. Here we introduce the key ideas of strategic thinking and game theory, with an emphasis on applications.
Relevant chapters: 13.1, 14.1-14.3, and 13.4-13.6

**Topic nine: Public goods and externalities (if time allows)**
An externality occurs when an activity of one agent has a positive or negative effect on another agent that is not transmitted by market prices. A pure public good is a kind of positive externality. Externalities lead to market failure because of missing markets. There are various ways to ‘internalise’ externalities to improve efficiency, but no solution is costless. Government failure will also be discussed.
Relevant chapters: 18.1-18.2 and 18.4-18.6

**The goal of the unit**
This unit leads you to understand how market mechanism works and how it achieves efficiency in a certain environment. We would also see when market mechanism fails to achieve an efficient outcome so that we can decide when market intervention may be justified. In the course of studying these contents, we will also learn the economic way of thinking and analysis.

**Learning outcomes**
On completion of this unit, you should be able to:
- grasp the economic way of thinking;
- model how a consumer chooses so as to maximise utility given constraints;
- show how consumer choices may change when prices or income change;
- model how a firm chooses so as to maximise profits given constraints;
- understand how to use the economic concept of opportunity costs;
- grasp the determinants of supply, demand, market price and perfect competition;
• use Edgeworth box analysis to understand general equilibrium and the concept of Pareto efficiency;
• understand how monopolistic firm sets the price to maximize its profit;
• apply the concept of game theory to understand the behaviour of oligopolistic firms.

Educational principles and graduate attributes

In this unit, you will be encouraged and facilitated to develop the ability and desire to:
• critically evaluate the economic argument and solve the economic decision problems;
• demonstrate self-management and independent learning skills through the completion of the prescribed weekly tutorial questions;
• develop communication skill by participating in the tutorial discussions;
• think creatively through the completion of term assignment.

TEACHING AND LEARNING RESPONSIBILITIES

Teaching and learning evaluation

You may be asked to complete two evaluations during this unit. The Student Perception of Teaching (SPOT) and the Students’ Unit Reflective Feedback (SURF). The SPOT is optional and is an evaluation of the lecturer and the unit. The SURF is completed online and is a university wide survey and deals only with the unit. You will receive an email from the SURF office inviting you to complete the SURF when it is activated. We encourage you to complete the forms as your feedback is extremely important and can be used to make changes to the unit or lecturing style when appropriate.

Attendance

Participation in class, whether it be listening to a lecture or getting involved in other activities, is an important part of the learning process. It is therefore important that you attend classes. More formally, the University regulations state that ‘to complete a course or unit students shall attend prescribed classes, lectures, seminars and tutorials’.

Especially, the attendance at tutorials will be carefully recorded.

Lectures  Monday, 11am – 12noon, BUSN: Wesfarmer L.T.
Thursday, 11am – 12noon, BUSN: Wesfarmer L.T.

Tutorials  1 per week, from week 3 onwards. (Times and days are subject to change. For up-to-date information, please check: http://www.olcr.uwa.edu.au/)

<table>
<thead>
<tr>
<th>Tutorial group no.</th>
<th>Day</th>
<th>Time</th>
<th>Venue</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Monday</td>
<td>12:00 noon</td>
<td>BUSN:262</td>
</tr>
<tr>
<td>2</td>
<td>Monday</td>
<td>12:00 noon</td>
<td>BUSN:263</td>
</tr>
<tr>
<td>3</td>
<td>Monday</td>
<td>1:00 pm</td>
<td>BUSN:261</td>
</tr>
<tr>
<td>4</td>
<td>Monday</td>
<td>4:00 pm</td>
<td>BUSN:160</td>
</tr>
<tr>
<td>5</td>
<td>Tuesday</td>
<td>9:00 am</td>
<td>BUSN:260</td>
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<td></td>
<td>Day</td>
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<td>11:00 am</td>
<td>BUSN:161</td>
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<tr>
<td>7</td>
<td>Tuesday</td>
<td>12:00 noon</td>
<td>BUSN:161</td>
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<tr>
<td>8</td>
<td>Tuesday</td>
<td>2:00 pm</td>
<td>SSCI:125</td>
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<td>10</td>
<td>Wednesday</td>
<td>9:00 am</td>
<td>BUSN:242</td>
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<td>11</td>
<td>Wednesday</td>
<td>11:00 am</td>
<td>GUIL:SR2</td>
</tr>
<tr>
<td>12</td>
<td>Wednesday</td>
<td>12:00 noon</td>
<td>BUSN:161</td>
</tr>
<tr>
<td>13</td>
<td>Wednesday</td>
<td>3:00 pm</td>
<td>BUSN:163</td>
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<tr>
<td>14</td>
<td>Wednesday</td>
<td>4:00 pm</td>
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<td>15</td>
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<td>9:00 am</td>
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<tr>
<td>16</td>
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<td>10:00 am</td>
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<tr>
<td>17</td>
<td>Thursday</td>
<td>12:00 noon</td>
<td>BUSN:160</td>
</tr>
<tr>
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<tr>
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<tr>
<td>20</td>
<td>Friday</td>
<td>10:00 am</td>
<td>BUSN:164</td>
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</tbody>
</table>

There are several tutors for this class. Your tutor will supply you with his contact details in due course.

Attendance at tutorials is a requirement of the course. Registration for tutorials is done on-line. You should all have a tutorial group allocated to you before the first tutorial. As tutorials are compulsory, tutorial answers will not be posted on the class web page, nor will they be distributed or made available for photocopying. It is unfair on students who make the effort to attend class to reward non-attendance of compulsory classes in this way.

The lectures will be recorded using the Lectopia system. You must attend class and/or watch Lectopia to receive the benefit of the complete materials. I strongly advise you to attend class; Lectopia should be for revision purposes. Please be aware that Lectopia does not always record the whole lecture, for unknown reasons. This is an extra reason why attending lectures is important.
CONTACT DETAILS

We strongly advise students to regularly access their student email accounts. Important information regarding the unit is often communicated by email and will not be automatically forwarded to private email addresses.

<table>
<thead>
<tr>
<th>Unit coordinator/lecturer</th>
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</thead>
<tbody>
<tr>
<td><strong>Name:</strong> Sam-Ho Lee</td>
</tr>
<tr>
<td><strong>Email:</strong> <a href="mailto:samho.lee@uwa.edu.au">samho.lee@uwa.edu.au</a></td>
</tr>
<tr>
<td><strong>Phone:</strong> 6488 5655</td>
</tr>
<tr>
<td><strong>Consultation hours:</strong> Monday 2pm – 4pm</td>
</tr>
<tr>
<td><strong>Lecture times:</strong> Monday 11am – 12pm; Thursday 11am – 12pm</td>
</tr>
<tr>
<td><strong>Lecture venue:</strong> BUSN: Wesfarmer Lecture Theatre</td>
</tr>
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TEXTBOOK(S) AND RESOURCES

Unit website

The web page for the course can be found at [http://www.webct.uwa.edu.au](http://www.webct.uwa.edu.au).

Recommended/required text(s)

Each student should have access to a copy of the following text:

UNIT SCHEDULE

<table>
<thead>
<tr>
<th>Week#</th>
<th>Topic</th>
<th>Lecture</th>
<th>Seminar/tutorial/questions</th>
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<tbody>
<tr>
<td>1</td>
<td>Topic 1</td>
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<td></td>
</tr>
<tr>
<td>2</td>
<td>Topic 2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Topic 2 &amp; 3</td>
<td>Tutorial 1</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Topic 3</td>
<td>Tutorial 2</td>
<td></td>
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<tr>
<td>5</td>
<td>Topic 4</td>
<td>Tutorial 3</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Topic 4 &amp; 5</td>
<td>Tutorial 4</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Topic 5</td>
<td>Tutorial 5</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Topic 5 &amp; 6</td>
<td>Mid term test</td>
<td>Tutorial 6</td>
</tr>
<tr>
<td>9</td>
<td>Topic 6</td>
<td>Tutorial 7</td>
<td></td>
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<tr>
<td>10</td>
<td>Topic 7</td>
<td>Tutorial 8</td>
<td></td>
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<tr>
<td>11</td>
<td>Topic 7 &amp; 8</td>
<td>Tutorial 9</td>
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<tr>
<td>12</td>
<td>Topic 8</td>
<td>Tutorial 10</td>
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</tr>
<tr>
<td>13</td>
<td>Review</td>
<td>Tutorial 11</td>
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</table>

ASSESSMENT MECHANISM

The purpose of assessment

There are a number of reasons for having assessable tasks as part of an academic program. The assessable tasks are designed to encourage you to explore and understand the subject more fully. The fact that we grade your work provides you an indication of how much you have achieved. Providing feedback on your work also serves as part of the learning process.

Assessment mechanism summary

There are a number of reasons for having assessable tasks as part of an academic program. The assessable tasks are designed to encourage you to explore and understand the subject more fully. The fact that we grade your work provides you an indication of how much you have achieved. Providing feedback on your work also serves as part of the learning process.
<table>
<thead>
<tr>
<th>Item</th>
<th>Weight</th>
<th>Due date</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tutorial attendance</td>
<td>5%</td>
<td>Determined at every tutorial</td>
<td>Students should attend all the tutorials. However, students are allowed to skip 2 tutorials without any disadvantage (considering the possibility of illness and unavoidable family events). From the 3rd absence on, 0.5 points will be subtracted from total 5 points from each absence.</td>
</tr>
<tr>
<td>Mid semester exam</td>
<td>30%</td>
<td>In class exam in week 8</td>
<td></td>
</tr>
<tr>
<td>Term assignment</td>
<td>5%</td>
<td>Your tutorial session in the week of 23 May (Week 12)</td>
<td>Students may decide not to do this assignment with prior notice. The weight will go to final exam.</td>
</tr>
<tr>
<td>Final exam</td>
<td>60%</td>
<td>Held in the final exam period</td>
<td>The weight will be 65% for the students notifying the tutor of not doing term assignment.</td>
</tr>
</tbody>
</table>

**Note 1:** Results may be subject to scaling and standardisation under faculty policy and are not necessarily the sum of the component parts.

**Note 2:** Your assessed work may also be used for quality assurance purposes, such as to assess the level of achievement of learning outcomes as required for accreditation and audit purposes. The findings may be used to inform changes aimed at improving the quality of Business School programs. All material used for such processes will be treated as confidential, and the outcome will not affect your grade for the unit.

**Assessment components**

**Tutorial attendance**

Students should attend all the tutorials. However, students are allowed to skip 2 tutorials without any disadvantage (considering the possibility of illness and unavoidable family events). From the 3rd absence on, 0.5 points will be subtracted from total 5 points from each absence.

**Mid semester exam**

- 1 hour in class exam;
- The weights of each question will be stated in the exam.

**Term assignment**

A short note composed of one newspaper or magazine article and a comment by you.

Any article in year 2011 is okay if it contains social phenomena to which economic thinking can be applied to.

A comment is your own economic reasoning or an application of existing idea to understand the described phenomena in the article.

One page is suggested for the length of a comment, but it can be any length.

You can decide not to do this assignment, but should report your decision at least one week before the due date to your tutor. Then the weight in this component will go to the final exam.
Should be submitted to your tutor in the tutorial session in the week commencing on 23 May (week 12).

**Final exam**
- 2 hour exam;
- The weights of each question will be stated in the exam.

**Submission of assignments**

Students should hand in the term assignment to their tutors in the tutorial session in the week 12 (23 - 27 May).

Please remember to attach an Assignment Cover Sheet to the front of your assignment. You can download and print your Assignment Cover Sheet from the Current Students web page [http://www.business.uwa.edu.au/students/assessments](http://www.business.uwa.edu.au/students/assessments).

**Student Guild**
Phone: (+61 8) 6488 2295  
Facsimile: (+61 8) 6488 1041  
E-mail: enquiries@guild.uwa.edu.au  
Website: [http://www.guild.uwa.edu.au](http://www.guild.uwa.edu.au)

**Charter of Student Rights and Responsibilities**
The Charter of Student Rights and Responsibilities outlines the fundamental rights and responsibilities of students who undertake their education at UWA (refer [http://handbooks.uwa.edu.au/undergraduate/poliproc/policies/StudentRights](http://handbooks.uwa.edu.au/undergraduate/poliproc/policies/StudentRights)).

**Appeals against academic assessment**
The University provides the opportunity for students to lodge an appeal against assessment results and/or progress status (refer [http://www.secretariat.uwa.edu.au/home/policies/appeals](http://www.secretariat.uwa.edu.au/home/policies/appeals)).