ECON30010
Microeconomics

SUBJECT GUIDE

First Semester, 2014

Prepared by:
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Department of Economics
Faculty of Business and Economics
Subject Outline

Introduction

Welcome to Microeconomics (ECON30010)! A solid understanding of economics consists of a set of skills that, if applied appropriately, can shed highly valuable light on a large array of areas, which include policy making, politics, business strategy, and history. Importantly, understanding economics does not primarily mean being knowledgeable about a large number of well-established facts and principles. Rather, it means making the clear and fundamental distinction between positive and normative issues, and applying rigor and consistency when addressing the positive questions, which need to be answered before the, perhaps more important and almost always seemingly more urgent, normative issues can be tackled. Understanding the positive issues requires some understanding of formal, mathematical models, which necessitates problem-solving skills. Acquiring this set of skills can be challenging at times, but the rewards from doing so are large. Having solid problem-solving skills is essential in the vast majority of jobs that business and economics graduates obtain.

Subject Aims

The overall aim of this subject is that students become proficient in the use of thorough economic reasoning to address issues and inform debates that arise in virtually all areas of modern society, including the increasingly competitive world of business, and policy making and politics. A wide range of skills will be covered during the semester. On successful completion of the subject, students should be:

(a) able to identify the conditions under which markets can be expected to work satisfactorily, and the conditions under which they cannot,

(b) able to evaluate the pros and cons of various policy interventions that aim at mitigating or eliminating short-comings of freely operating markets,

(c) able to use game-theory to analyze situations of strategic interaction.

(d) acquainted with writing concise and coherent argumentative essays.

Prescribed References

The required textbook for this subject is:

Microeconomics with Calculus
by Jeffrey M. Perloff, 3rd Edition (2013), Pearson Education.

If you have already purchased the first or second edition textbook, there is no need to also purchase the second edition. However, it is important that you have the book ‘with Calculus’ in the title.

Additional required readings on specific topics and questions will be made available on the LMS as these topics are reached.
Learning Outcomes

Subject Objectives

On successful completion of this subject, students should be able to:

- Distinguish between positive and normative issues;
- Appreciate the purpose of models and the inevitable limitation of every model;
- Apply formal models to analyze positive problems and answer normative questions;
- Identify the conditions under which markets can be expected to work satisfactorily, and the conditions under which they cannot;
- Apply thorough economic reasoning to shed light on ongoing policy debates;
- Identify and analyze problems that arise from imperfect information including the phenomenon of adverse selection and the principle-agent problem;
- Apply game theory techniques to analyze situations with strategic interactions, such as competition between firms with market power, provision of public goods, or between generals at war;
- Apply advanced economic tools and reasoning to inform policy debates;
- Identify the properties of standard competitive markets (consumer theory, producer theory, welfare theorems, decision making under uncertainty);
- Understand the Coase Theorem and its implications – transaction costs economics - for environmental policy, and market design.

Generic Skills

In this subject you will have the opportunity to develop important generic skills. These skills are grouped below by level of development in Microeconomics ECON30010:

**High** level of development:
- Economic reasoning; appreciation of the use of models; purpose and limitations of models; evaluate models; use models to analyze positive questions and to make normative evaluation of alternative policies.

**Moderate** level of development:
- Mathematical analysis, written communication; critical thinking; problem solving; and receptiveness to alternative ideas.

**Some** level of development:
- Independent thinking; solving new problems; constructing a coherent argument; apply economic reasoning to a variety of practical problems.

Awareness Issues

At a broader level, studying this subject will increase your awareness of the breadth of questions that are investigated within business and economics, the wide range of applications of economic models, and the future subjects you can take to further advance your understanding of economics.
Prerequisites

The main subject pre-requisite for Microeconomics ECON30010 are Intermediate Microeconomics ECON20002 and Intermediate Macroeconomics ECON20001. The subject will be taught in a fairly rigorous manner, requiring students to be familiar with calculus, basic algebra, constrained optimization with multiple choice variables, and solving systems of linear equations. Students who have not used their high school maths for the last two years are expected to refresh their minds quickly, and to then become familiar with multivariate constrained optimization. Some prior knowledge of game theory is also helpful, but not required.

Contact Details

Lecturer Contact Details

Your coordinator for Microeconomics ECON30010 is Simon Loertscher, Associate Professor in the Department of Economics and (Acting) Director/Deputy Director Research of the Centre for Market Design at the University of Melbourne.

Email: simonl@unimelb.edu.au
Room: 436, Level 4, FBE Building (Building 105)
Phone: (03) 8344 5364
Consultation Hour: 2:00 to 3:00 pm on Fridays

Tutor in Charge Contact Details

The Tutor in charge for Microeconomics ECON30010 is Dr Wasana Karunarathne.

Email: lakminik@unimelb.edu.au
Room: 335 Level 3, FBE Building (Building 105)
Phone: (03) 8344 4866
Consultation Hour: Monday 12.30- 1.30pm

Email Protocol

While academic staff endeavors to address queries received via email, substantive questions are best resolved face-to-face during normal consultation hours. With this in mind, all students are encouraged to familiarize themselves with the consultation hours offered by the lecturer and the tutors in this subject. In addition, students may use the Online Tutor to post questions regarding the subject.
Always be aware that at the receiving end of any email is another human being. Remain friendly and polite at all times, and write proper sentences in English.

Students should be aware that emails from non-University email addresses such as Yahoo, Hotmail, Googlemail or business email addresses may be filtered by the University’s spam filter, which means that staff may not receive your email. All students are therefore strongly encouraged to use their University email address. Note that you must first activate your University email address before you can send or receive emails at that address. You can activate your email account at this link:

http://accounts.unimelb.edu.au/

Lectures and Tutorials

Lecture Times
There are two one hour lectures each week:

Monday 2:15 pm to 3:15 pm  -  Asia Centre-Carrillo Gantner Theatre (Building 158)

Friday 3:15 pm to 4:15 pm  -  Asia Centre-Carrillo Gantner Theatre (Building 158)

Lecture Schedule (subject to change)

<table>
<thead>
<tr>
<th>Week</th>
<th>Lecture</th>
<th>Date</th>
<th>Topic</th>
<th>Readings</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1</td>
<td>3 March</td>
<td>Introduction</td>
<td>Perloff ch.1</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>7 March</td>
<td>Consumer Theory I</td>
<td>Perloff – ch. 2 &amp; 3</td>
</tr>
<tr>
<td>2</td>
<td>3</td>
<td>10 March</td>
<td>Consumer Theory II</td>
<td>Perloff – ch.4 &amp; 5</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>14 March</td>
<td>Theory of the Firm I</td>
<td>Perloff – ch. 6 &amp; 7</td>
</tr>
<tr>
<td>3</td>
<td>5</td>
<td>17 March</td>
<td>Theory of Firm II; Perfectly Competitive Markets (Partial Equilibrium)</td>
<td>Perloff - ch.7, 8 &amp; 9</td>
</tr>
<tr>
<td></td>
<td>6</td>
<td>21 March</td>
<td>Applications of the Competitive Model</td>
<td>Perloff –ch.2 &amp; 9</td>
</tr>
<tr>
<td>4</td>
<td>7</td>
<td>24 March</td>
<td>Price Mechanism and Rationing</td>
<td>Lecture notes</td>
</tr>
<tr>
<td></td>
<td>8</td>
<td>28 March</td>
<td>General Equilibrium I</td>
<td>Perloff –ch.10</td>
</tr>
<tr>
<td>5</td>
<td>9</td>
<td>31 March</td>
<td>General Equilibrium II</td>
<td>Perloff – ch.10</td>
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<tr>
<td>Week</td>
<td>Day</td>
<td>Date</td>
<td>Topic</td>
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<tr>
<td>6</td>
<td>11</td>
<td>7 April</td>
<td>Monopoly II (Price Discrimination)</td>
<td><em>Perloff</em> – ch. 12</td>
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<tr>
<td></td>
<td>12</td>
<td>11 April</td>
<td>Decision under Uncertainty I</td>
<td><em>Perloff</em> – ch. 16</td>
</tr>
<tr>
<td>7</td>
<td>13</td>
<td>14 April</td>
<td>Decision under Uncertainty II</td>
<td><em>Perloff</em> – ch. 16</td>
</tr>
<tr>
<td></td>
<td>18</td>
<td>18 April</td>
<td>No Lecture (Good Friday)</td>
<td><em>Bible</em></td>
</tr>
<tr>
<td>8</td>
<td>14</td>
<td>28 April</td>
<td>Game Theory I</td>
<td><em>Perloff</em> – ch. 13</td>
</tr>
<tr>
<td></td>
<td>15</td>
<td>2 May</td>
<td>Game Theory II</td>
<td><em>Perloff</em> – ch. 13</td>
</tr>
<tr>
<td>9</td>
<td>16</td>
<td>5 May</td>
<td>Oligopoly I</td>
<td><em>Perloff</em> – ch.14 &amp; 15</td>
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<tr>
<td></td>
<td>17</td>
<td>9 May</td>
<td>Oligopoly II</td>
<td><em>Perloff</em> – ch.14 &amp; 15</td>
</tr>
<tr>
<td>10</td>
<td>18</td>
<td>12 May</td>
<td>Externalities and Public Goods</td>
<td><em>Perloff</em> – ch.17</td>
</tr>
<tr>
<td></td>
<td>19</td>
<td>16 May</td>
<td>Market Design I: Market Making</td>
<td>Lectures notes, additional material to be posted (e.g. Loertscher and Wilkening 2011, Loertscher and Marx 2014; Artemov, Feldmann, Loertscher 2012)</td>
</tr>
<tr>
<td>11</td>
<td>20</td>
<td>19 May</td>
<td>Market Design II: Match Making</td>
<td>Lecture notes additional material (see above).</td>
</tr>
<tr>
<td></td>
<td>21</td>
<td>23 May</td>
<td>Economics of Information: Moral Hazard I</td>
<td><em>Perloff</em> – ch.19</td>
</tr>
<tr>
<td>12</td>
<td>22</td>
<td>26 May</td>
<td>Moral Hazard II (Principal-Agent Model)</td>
<td><em>Perloff</em> – ch.19</td>
</tr>
<tr>
<td></td>
<td>23</td>
<td>30 May</td>
<td>Subject Review</td>
<td>All of the above</td>
</tr>
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</table>
Lecture Participation Requirements

The main lecture slides will be available for download from the ECON30010 section of the LMS prior to each lecture. Students can print these slides and bring them to lectures. Students should also be prepared to take notes, as some important explanations of the material are not provided on the slides. Note also that the audio from the lectures will be recorded and available to students using the University’s Lectopia system, which will be accessible via the LMS (see details below).

Tutorial Schedule

Students are all expected to attend a one hour tutorial each week. Tutorials will commence in the first week of the semester. The tutorials are a fundamental component of the subject, and will give students the opportunity to practice the quantitative skills covered during lectures in the previous week.

Tutorial Participation Requirements

Tutorial questions will be available for download from the LMS on the Thursday the week prior to when each tutorial occurs. Tutorials are a fundamental part of this subject, and will also help you prepare for completing the assignments.

Enrolling in Tutorials

Alloc8 has been replaced by the new Student Timetable, accessible via the Student Portal. After subject registration, students are allocated to available classes. It is a student’s responsibility to ensure their registrations produce a clash-free timetable. Late enrolment into tutorials is handled by the Commerce Student Centre (Upper Ground Level, ICT Building, 111 Barry Street, Carlton). More information about the new Student Timetable system is available on the Faculty’s website:

http://fbe.unimelb.edu.au/csc/planning/timetables

Using Lectopia

An audio and video recording of lectures delivered in this subject will be made available to students following each lecture. These recordings allow students to revise lectures during the semester, or to review lectures in preparation for the end of semester exam. Students can access recorded lectures by clicking on the “Lectopia Recording” link on the “Lectures” page in the LMS section for this subject. To view Lectopia recordings, you must install QuickTime 7 (or a later version) on your computer. Many students who use the lecture recordings find it helpful to be looking at the slides as they listen.

Please note that Lectopia recordings are not a substitute for lecture attendance; rather they are designed for revision. On occasion a Lectopia recording can fail, usually due to technical reasons. In such cases, the lecture recording will not be made available.
Assessment Overview

Your assessment for this subject comprises the following:

<table>
<thead>
<tr>
<th>Assessment Task</th>
<th>Available</th>
<th>Due date</th>
<th>Weighting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assignment 1</td>
<td>Thursday 6 March, 3:00pm</td>
<td>Thursday 20 March 2014, 3:00pm</td>
<td>4%</td>
</tr>
<tr>
<td>Assignment 2</td>
<td>Thursday 20 March, 3:00pm</td>
<td>Thursday 3 April 2014, 3:00pm</td>
<td>4%</td>
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<tr>
<td>Assignment 3</td>
<td>Thursday 3 April, 3:00pm</td>
<td>Thursday 17 April 2014, 3:00pm</td>
<td>4%</td>
</tr>
<tr>
<td>Assignment 4</td>
<td>Thursday 17 April, 3:00pm</td>
<td>Thursday 8 May 2014, 3:00pm</td>
<td>4%</td>
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<tr>
<td>Assignment 5</td>
<td>Thursday 8 May, 3:00pm</td>
<td>Thursday 22 May 2014, 3:00pm</td>
<td>4%</td>
</tr>
<tr>
<td>Final Exam</td>
<td></td>
<td>Between 10 and 27 June 2014</td>
<td>80%</td>
</tr>
</tbody>
</table>

Assignments

Starting in week 1, students will be given 5 assignments in total. For each assignment, students will have two weeks time, with the exception of assignment 4, for which they will have three weeks because of the Easter break. Students are allowed to discuss the assignments in groups, but each student must hand in their own answer sheet. In particular, students must not hand in answer sheets that contain partly or completely identical answers. Please refer to University’s guidelines on plagiarism and academic honesty:


All assignments must be submitted via the Assignment Tool on the LMS. That is, submissions are done online only. Students will only be able to submit a single file (that is, students cannot upload multiple files). The admissible file formats is only PDF. Assignments can be submitted starting Monday 9am in the week when they are due. Late assignment are not accepted and will carry zero marks.
End-of-semester exam

The end of semester exam, worth 80 per cent of the final grade for this subject, will cover all the material covered during lectures and tutorials throughout the semester. This exam will occur during the University's normal end of semester assessment period, with the time, date and location provided by the University's administration later in the semester. The exam will be 2 hours in duration, and will consist both of true/false questions and longer problems. All students will be required to answer all true/false questions, and 2 out of the 3 longer problems. That is, students will have a choice which longer problem they do not want to solve. The style of the end-of-semester exam in June 2014 is similar to the assignments. It will consist of four problems. Problem 1 will consist of True/False statements. All students will be required to solve this problem. Then there will be three additional problems, one of them being an essay question. Students can choose which 2 of these 3 problems they want to solve. Summarizing, all students will be asked to solve 3 out of 4 problems, with Problem 1 being mandatory for all.

Exam Policy

The Faculty requires that students are available for the entire examination period. Supplementary exams will not be provided in cases of absence during the examination period, unless the absence is due to serious illness or other serious circumstances. See the Special Consideration web site for more information:

http://fbe.unimelb.edu.au/csc/assistance/special_consideration

The examination period for this semester is Tuesday 10 June - Friday 27 June 2014. *The timing of the exam is beyond the control of any individual lecturer or department.*

Plagiarism and Collusion

Presenting material from other sources without full acknowledgement (referred to as plagiarism) is heavily penalised.

Plagiarism is the presentation by a student of an assignment identified as his or her own work even though it has been copied in whole or in part from another student’s work, or from any other source (e.g. published books, web-based materials or periodicals), without due acknowledgement in the text.

Collusion is the presentation by a student of an assignment as his or her own work when it is, in fact, the result (in whole or in part) of unauthorised collaboration with another person or persons. Both the student presenting the assignment and the student(s) willingly supplying unauthorised material are considered participants in the act of academic misconduct. See the following website for more information. http://academicichonesty.unimelb.edu.au/advice.html

The Centre for Excellence in Learning and Teaching (CELT) has developed a web-based ‘Academic Honesty Module’ that allows you to learn more about and test your knowledge of plagiarism and collusion. You are strongly encouraged to complete this module, which can be accessed at:

http://fbe.unimelb.edu.au/celt/
Late Submission

There will be absolutely no leniency for late submissions. Students who submit their assignments are presumed aware that they forego the marks for late submission.

Students should make such applications well before the assignment is due.

Note that if an assignment in this subject is submitted after the due date and time without the student being granted an extension by the Commerce Student Centre, the assessment will count as zero for assessment purposes.

Special Consideration

Students who have been significantly affected by illness or other serious circumstances during the semester may be eligible to apply for Special Consideration. The following website contains detailed information relating to who can apply for Special Consideration and the process for making an application:

http://fbe.unimelb.edu.au/csc/assistance/special_consideration

Note that applications for special consideration must generally be made with 3 working days of the assessment for which special consideration is being requested.
Referencing

All sources used for a written piece of assessment must be referenced. This is to acknowledge that your material is not based entirely on your own ideas, but is based, in part, on the ideas, information, and evidence of others. This is desirable as you are attending University in order to learn from others.

You will be required to use the APA system or Harvard System of referencing. The CELT has prepared a booklet for the APA system specifically to assist students to reference correctly. The booklet contains many examples that will help you when preparing your assignments. The booklet can be found here:


or


It is important that all material you present for assessment is referenced correctly. Material that has not been referenced correctly may be considered to be plagiarised, and as such may be penalised. Staff will also look for evidence that material included in the bibliography has been used in the assignment. Including references that have not been used may also result in your assignment being penalised.

Further Assistance

If you need assistance during the semester, you have several options:

Tutor Consultations

Students’ first point of contact should be their tutor. There are many tutors for this subject. Each tutor will set aside an hour each week (only during weeks when tutorials are scheduled) to meet with students for individual consultations. The times and locations for consultations with these tutors will be provided on the LMS page for this subject from the second week of semester, under the “Tutorial Times/Enrolment” menu item. Students should attend the consultation hours of their own tutor. If there is some legitimate reason for why a student cannot attend the consultation hours of their own tutor, they can attend the consultation hours of one of the other tutors on the list, but students of that tutor will have priority.

Online Tutor

The Online Tutor allows students to direct questions to a Microeconomics ECON30010 tutor via the LMS. The Online Tutor can be accessed 24 hours a day, 7 days a week. The Tutor will attempt to answer your question within 24 hours (weekdays only).

Your questions and the tutor’s answers can be accessed by all students in the subject, allowing everyone to benefit from the question and answer. Importantly, your identity will not be revealed to other students. Even if you do not want to ask a question, you can still view existing questions and answers.
Note that the Online Tutor is not designed to replace attendance at tutorials, but rather to complement the tutorial process. Also, simple questions that can be answered by referring to the prescribed readings or the lecture slides will not usually be answered. You can access the Online Tutor via the Online Tutor link, located in the navigation menu of this subject’s LMS page.

When using the Online Tutor, students must adhere to the following.

1. Students must first check that their question has not already been answered on the Online Tutor. The Online Tutor system has a search facility for doing such checks.

2. Questions should be short, with only one specific question in each posting. If students have more than one question, use a separate posting for each one.

3. Questions must be specific. They should NOT be open ended, such as “I do not understand Problem 2 in Tutorial 4. Can you explain it to me?” If you do not understand concepts, please see a tutor or the lecturer during their consultation hour.

4. Do not ask for the solutions to tutorial questions or assignment questions, even after they are completed.

**Lecturer Consultations**

Simon is available for consultations on Fridays from 2:00 to 3:00 pm during the semester. There is no need to contact the lecturer to book a time if you wish to consult with him during these hours. Just drop by his office: room 436 on level 4 in the FBE Building (building 105).

**Centre for Excellence in Learning and Teaching (CELT)**

The CELT offers a wide range of support services to students. If you are having any difficulty in studying for this subject, you can arrange an individual consultation with one of the Unit’s learning skills specialists. A learning skills specialist can review your current approaches to study and offer advice on how to adjust to the demands of tertiary study. If you are a student from a non-English speaking background, there is a specialist in English as a Second Language who is available to help with your written work. A mathematics and statistics specialist is also available to assist with reviewing the mathematics and statistics requirements for this subject.

Please visit the CELT web page for information about the specialist services offered by them, including how to book a consultation.


This web page also contains a wide variety of study skills topics and information sheets for students, and a timetable of up-coming events, including focussed workshops, designed to support Business and Economics students in their study.

The CELT is located on Level 5 of the “Spot” Business and Economics Building, 198 Berkeley Street. Make use of the CELT. It is there to help.