EC 201 SB1 – Intermediate Microeconomic Analysis

Summer II 2007: Monday through Thursday, 10:00am-12:00pm, COM 215

Instructor: Jeremy Smith Office: 264 Bay State Road, B02 Office Hours: Mondays and Tuesdays, 4:00pm-5:00pm; Wednesdays, 3:00pm-5:00pm E-mail: jersmith@bu.edu Phone Number: 617-353-5687 Website: people.bu.edu/jersmith/ec201-sum2_07.html

Description and Objective: The goal of this course is to give you a firm understanding of the basic tools used by economists. These tools are very powerful and can shed light on most aspects of human behavior. Mastering them is crucial for proceeding further in your economic education, but will also give you insights and skills in critical thinking that will equip you well for success in many professions and other areas of study. After briefly reviewing some results from introductory microeconomics, we will explore how these relate to underlying decisions by consumers and producers. We will then learn the results of interactions between consumers and producers under various types of market settings. We will use game theory to illustrate the consequences of strategic behavior. Finally, we will build on these insights to answer some further questions of interest, such as how consumers behave under conditions of uncertainty, why countries trade with one another and when pollution can be reduced through simple bargaining.

Prerequisites: You are required to have taken EC 101 or EC 111. This is a serious requirement: the course will build directly on the concepts developed in that class, and familiarity with these concepts is presumed. You will also need to be proficient with graphical and algebraic manipulation up to a high school level. There will be no time for remedial instruction regarding these requirements, so please do your own review work if necessary before the semester starts. You do not need to be familiar with calculus for this class, even though I am sure you have all been exposed to it in the past. For students who are considering pursuing graduate studies in economics, it is a major disservice not to be challenged with a rigorous mathematical treatment at this stage. On the other hand, it is imperative to develop a firm intuition for the material, and math can sometimes get in the way of this. I will not use calculus for any required material, but will present the calculus equivalent of some results at the end of certain topics for those who are interested.

Textbook: The required textbook for this class is *Microeconomics and Behavior, Sixth Edition* (2006) by Robert H. Frank, published by McGraw-Hill Irwin and available at the university bookstore. I am also recommending that you buy the accompanying study guide, which should be available at the bookstore as well. You may be able to save a substantial amount of money by looking for a used copy of the textbook, but it appears that used copies of the study guide are difficult to come by. There are literally dozens of textbooks to choose from for this course. I have chosen this one because I feel that it does the best job at demonstrating the power of economics in providing answers for important questions posed by the world around us. It is also written in a way that will help you to absorb the material in a very intuitive way and ultimately to enjoy the subject.

You are required to read all assigned chapters. (For those who feel they might need a refresher in basic economic concepts and math, I might recommend that you read and work through an excellent introductory textbook called *Microeconomics, Eighth Edition* (2008) by Stephen L. Slavin, published by McGraw-Hill Irwin. For those who are interested in a more rigorous mathematical approach, *Microeconomic Theory: An Integrated Approach* (2002) by Stephen A. Mathis and Janet Koscianski, published by Prentice Hall may be of interest. Neither of these books has been ordered through the bookstore, but both should be easy to find.)

Grading: There will be three in-class exams worth 32% of the final grade each. The exams will not be cumulative. I have discretion over the remaining 4% of the final grade. The default will be to receive these marks in full, but I will take marks away for unexcused absences and breaches of class etiquette as discussed below.

Attendance, Class Etiquette and Class Notes: Attendance is required, and I treat this requirement very seriously. If you need to miss a class, e-mail me beforehand to explain why. I will take attendance at the beginning of every class. Please arrive to class punctually, do not disturb others during lecture and do not begin to pack your belongings until I have dismissed the class. I promise to finish lecturing by 11:45 each class, and would appreciate your full attention for the whole class time in return. No lecture notes will be made available. Further, the textbook is intended to be a complement rather than a substitute to the lectures, so you should not expect everything said in class to appear verbatim in the textbook for your leisurely perusal. You should therefore be actively engaged during class and should take careful notes. If you miss a class for any reason, it is your responsibility to obtain lecture notes from fellow classmates and to seek clarification from me during office hours or by special appointment if necessary.

Communication: I may occasionally send e-mail to the class to make general announcements or alert you that I have posted something on the website. In order to receive these, you should make sure that you are officially registered for the course, that the university has your e-mail address recorded correctly and that you check your BU e-mail address regularly. I will generally respond to e-mail questions within 24 hours, but will refer you to office hours if a lengthy explanation is necessary. I have tried to be very flexible in setting my office hours. If you are unable to come during any of the three periods, send an e-mail in the first week of classes and we can talk about re-scheduling. I am willing to make special appointments to meet outside of office hours on a very limited basis and in extenuating circumstances only. I will generally be available by phone only during office hours, and there is no answering service available.

Missed Exams: Any exam that is missed without prompt official notification of a medical, religious or other valid reason will receive a grade of zero. You will be given the opportunity to write exams that are missed for a valid reason at an agreed-upon alternative time. Travel arrangements and busy schedules do not constitute valid reasons.

Academic Conduct: You are responsible for familiarizing yourself with the College of Arts and Sciences Academic Conduct Code, available at www.bu.edu/cas/academics/

programs/conductcode.html, and abiding by its principles. Please show respect for your institution, your fellow students and yourself by doing so and behaving honestly and honorably in this and all classes. Any infractions will be dealt with as harshly as the Code allows. Note that graphing and other programmable calculators are not allowed to be used during exams, and neither is it allowed to share calculators during exams. Using any electronic device other than a non-programmable calculator or sharing calculators during an exam will result in a zero grade being given on that exam and referral of the incident to the College of Arts and Sciences. You can buy a non-programmable scientific calculator from many stores in the BU area for under \$20. If you are not willing to invest that much in this class, you should drop it.

Strategies for Success: Many students find this class to be difficult, and the intensive nature of the summer semester will present further challenges. It is very important, both in terms of earning a good grade and effectively learning the material (which, by the way, are very highly correlated), that you start working hard immediately and continue to do so throughout the entire semester. Read the assigned chapters before class, be engaged by asking questions and paying careful attention during class, review the chapters and your notes after class and do lots of problems. This last point is especially important: much of your learning will be accomplished by struggling through problems and carefully understanding their solutions. The textbook contains many in-text problems (with end-of-chapter answers), review questions and practice problems. The study guide includes useful review information and additional problems. I will not assign any specific problem sets, but will rather let you choose which of these problems (and others) you will attempt. (This itself can be a useful lesson: the more problems attempted the better your preparation, but you are constrained in the amount of time you have to study; each of you will have to choose your own optimal amount of study time.) I will provide solutions to some of these problems a short time after the material has been covered in class, but if you read the solutions without first struggling through the problems you will not be getting the full benefits. I may also post a few sample exam questions with solutions before exams.

Course Outline

Introduction (Jul. 2)

- Discussion of the course (Chapter 1)
- Review of supply and demand (Chapter 2, including appendix)

Rational Consumer Theory (Jul. 3-11)

- Budget sets, preferences and rational choice (Chapter 3, with some appendix topics)
- Substitution, demand and elasticities (Chapter 4)
- Welfare and applications (Chapter 5)

Exam 1: Thursday, July 12

Producer Theory (Jul. 16-18)

- Production (Chapter 9, with some appendix topics)
- Costs (Chapter 10)

Market Structure Part I (Jul. 19-25)

- Perfect Competition (Chapter 11)
- Monopoly (Chapter 12)

Exam 2: Thursday, July 26

Market Structure Part II (Jul. 30-Aug. 1)

- Game theory and oligopoly (Chapter 13)

Additional Topics (through Aug. 8, as time permits)

- Rational consumer choice with uncertainty (Chapter 6)
- General equilibrium and gains from trade (Chapter 16)
- Market failure (Chapter 17)
- Departures from the standard rational choice model (Chapters 7 and 8)
- Factor Markets (Chapters 14 and 15)

Exam 3: Thursday, August 9