

## Microeconomics for Economic Policy

Central European University  
Department of Economics  
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### General Information

**Course level:** This is the compulsory core course for first year students of MA in Economic Policy and Global Markets

**Credits:** 4 credits (8 ECTS credits)

**Time:** Fall Semester

### General Description

This course develops at an elementary yet rigorous level the core of microeconomic theory. Microeconomic theory is the foundation of almost every economics course you will take later and you are well-advised to master it. The course clarifies Adam Smith's claims about the virtues of the free market. In particular, you will learn what an allocation problem is and the sense in which markets "solve" it under ideal but well specified circumstances. In the second half of the course, you will study what difficulties arise when these ideal circumstances fail to exist and whether particular government interventions can then be relied upon to improve on the market allocation. As you work through this course, you will develop your skills at problem solving and you will learn to reason about economic questions in a careful, systematic way. The emphasis in this course is on reasoning and understanding, not memorization.

### Learning Outcomes

Successful completion of the course enables students to

- Understand and formalize the optimizing behavior of market participants and how it generates market outcomes in different settings.
- Understand and formalize the notions of partial and general equilibrium and the assumptions leading to efficiency of markets.
- Understand and formalize the inefficiencies arising from non-competitive market structures.
- Examine several causes of market failure and options available to policymakers to increase efficiency.
- Understand and formalize strategic interaction of economic agents.
- Understand and formalize the inefficiencies arising from asymmetric information distribution between economic agents.

## Main textbooks

During the course we will use mainly the following textbooks:

- **Robert S. Pindyck and Daniel L. Rubinfeld**, *Microeconomics, 8th. ed.*, Pearson, 2013. (PR)
- **David A. Besanko and Ronald R. Braeutigam**, *Microeconomics, 5th. ed.*, Wiley, 2014. (BB)
- **Mankiw, N. Gregory**, *Principles of Microeconomics, 6th ed.*, Mason, OH: South-Western Cengage Learning, 2011.

Many lectures will follow closely Pindyck and Rubinfeld (PR) textbook. Nevertheless, some presentations will deviate from the text. The Mankiw's textbook is accompanying one, especially for those who did not take economics before. Since the course may be challenging to many of participants, you are advised to read the relevant chapters in the textbooks before coming to the class. Reading the textbooks in advance will allow you to benefit most from the lectures.

## Course Requirements and Assessment

There will be eight homework assignments, the midterm and the final exam. Homework assignments will consist of problems similar to those that you will encounter on the exams. While you should tackle the assigned problems first on your own, you are encouraged to discuss them with your fellow classmates. That is, you should feel free to discuss the questions and answers and come to a consensus on what you feel the right answers are; but then each person should go back and write up those answers individually, rather than passing around one set of answers for everyone to copy. Solutions to the homework assignments should be uploaded or handed in to the Teaching Assistant before the seminar, they will be graded. Selected solutions will be presented during the seminars.

The Exams will be closed-books no-notes, and based on individual effort. The final exam will be comprehensive.

Your course grade will be determined as follows:

Homework assignments: up to 25%

Midterm Exam: up to 25%

Final Exam: at least 50%.

## Detailed course outline and reading list

- Introduction: Markets and Prices; Basic of supply and demand, PR, ch. 1, 2
- Consumer theory
  1. Consumer behavior, PR ch. 3
  2. Individual and market demand, PR, ch. 4

3. Choice under uncertainty, PR, ch. 5.1-5.2
- Producer theory
    1. Production, PR, ch. 6
    2. Costs, PR, ch. 7
  - Market structures
    1. Perfect Competition, PR, ch. 8, BB ch. 9
    2. Competitive markets, PR, ch. 9
    3. Monopoly, PR, ch. 10.1-10.4
    4. Monopolistic competition and oligopoly, PR ch. 12
  - Other topics Market Structures
    1. Game Theory, PR, ch. 13, BB ch. 14
    2. General Equilibrium, PR ch. 16, BB ch. 16
    3. Asymmetric Information, PR ch. 17, BB, ch. 15
    4. Public goods and externalities, PR ch. 18, BB, ch. 17