

UNIVERSITY OF GEORGIA
Department of Economics
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Spring Semester 2009

Economics 2106H
Principles of Microeconomics (Honors)

Prof. Greg Trandel

302 Moore — Tu, Th at 12:30 p.m.

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Office Hours: Monday: 11:00 a.m. – 2:00 p.m.

Wednesday: 1:00 p.m. – 3:30 p.m.

or by appointment if you are not free during the above times

Course Description: Economic choices are necessary because resources are scarce. Much of this class analyzes how the people involved in a market system (which consists of independent consumers and producers) make these choices, and thus organize society's economic activities. The class also shows how certain criteria can be used to judge market outcomes — showing which functions markets perform well and which they don't — and analyzes government's involvement in the economy.

The course both introduces rigorous microeconomic theory and shows how that theory can be applied to certain “real-world” topics. As a result, the classes and readings address both theoretical and policy issues.

Books: The main textbook for this class is *Microeconomics*, 2nd edition, by R. Glenn Hubbard and Anthony Patrick O'Brien. Almost all of this book is assigned, and you should have access to a copy of it. If you know somebody else in the class, you might want to consider sharing one (rather expensive) copy. A single copy of the book will be available at the UGA Library Reserve Desk.

Students should also obtain a copy of *Freakonomics* by Steven Levitt and Stephen Dubner. Any edition of this book is fine, either hardcover or paperback, and students are free to find cheap, used copies.

Prepared Notes: At the start of every class, Prof. Trandel will hand out a set of “lecture notes”. Notes from the two most-recent classes will also be available.

The lecture notes have some fill-in-the-blanks that students can complete during class. There is also much other blank space on the pages. Students should use this space to take additional notes during class.

These notes are not available electronically — they can only be picked up on paper in the classroom.

Web Page: The main web page for this class (note: this is *not* a WebCT page) is at <http://www.terry.uga.edu/~gtrandel/econ2106h/>. [The page can also be found from the main Department of Economics page by clicking on “Class Schedule” and then on this class.]

Various material will be added to the Web page throughout the semester. For example: before each exam, a number of sample test questions (with answers and explanations) will be posted.

Scores and grades will be reported through the UGA WebCT system.

Outside Readings: All students are responsible for reading a number of short pieces (many taken from various newspapers and magazines) that relate to topics covered in class. Some questions based on these readings will appear on the exams. Before each exam, a link to the list of readings will be placed on the class web page. A few of the readings will be available as web pages; most of them will be available as scanned copies on the UGA Library Reserve system. To access these readings, a password is needed; that password will be given out in class.

Short Writing Assignments: Each student is responsible (over the course of the semester) for four *short* writing assignments.

The point of this assignment is to encourage (require?) students to realize just how many “real-world” events can be understood and analyzed with microeconomic concepts.

In each essay, a student will describe and explain a specific *example of a particular microeconomic concept*. These examples must describe actual *real world* (not hypothetical, nor predicted) events. More precisely, the examples can come either from a student’s personal experience, from some event that the student observed, or from an appropriate “current event” described in the media. [If a media source is used, a brief citation must be provided (no particular format is required).]

Each essay need only be a couple paragraphs long; a student need write only enough (i) to describe the relevant economic concept, (ii) to describe a specific “real-world” event or situation, and (iii) to explain why that event is an appropriate example of the economic concept.

Of the four required essays, three must be on specified topics. One *must* describe a real-world *price change* that can be explained by *supply-and-demand analysis*. [With luck, students will submit a wide variety of examples. Since it seems likely that a couple examples might be overly popular, *no essays can be submitted on the prices of either Georgia Bulldog football tickets or gasoline*.] Another essay must describe a real-world situation that can be understood using a *game theory* framework (most likely a prisoner’s dilemma or a chicken game). The third essay must describe a real-world example of an *externality* or a *public good*.

The fourth essay is to provide an example of *any topic* covered in this class. Possible topics include: *economic cost*, *marginal analysis*, the effects of *price controls*, *long-run market changes*, *price differentiation*, *protectionism*, *moral hazard*, etc. [One topic that — again, because it might prove to be too common — *cannot be used is the simplest type of “opportunity cost” issue (i.e., do I “study” or “go out with my friends”)*; more detailed opportunity cost topics might be fine (please feel free to ask whether a possible topic is appropriate).] Since the point of this assignment is to encourage each student to discover his or her own economic applications, students *cannot submit essays* that employ specific examples cited either in class, on the homeworks, on the exams, or in the textbook. [If only a general example of a topic (like “pollution”) is mentioned in class, an essay on a specific example of that topic would probably be acceptable. Again, feel free to ask whether a particular topic would work.]

The essays will not be given letter or number grades. They will simply be labeled as earning “credit” (one point) or needing to be “revised”. An essay can need revision for any of the following reasons: the incident it cites isn’t truly an example of the economic concept it is supposed to illustrate; the student’s explanation of the concept, the event, or the link between them is inadequate; or the writing in the essay is substandard. After a student submits an essay, a “C” or “R” notation will be posted on the class WebCT page. A “revision needed” label can be a temporary one — any essay so labeled will be returned to the student, who (if the flaw is fixable) might decide to revise the essay and resubmit it. Alternatively, a student might respond to a “revision needed” verdict by starting over with a new topic.

A student who submits four acceptable essays will receive four additional points, for a total of twenty points. How these twenty points factor into a student’s semester grade is explained below.

Essays must be word-processed (or typed).

The last date on which essays can be submitted is Thursday, April 23rd. Please, however, consider submitting some (or all) of the four essays well before that date.

While the following should be obvious, here it is anyway. Any submitted essay must reflect the student’s own work. Students should feel free to discuss possible topics with classmates (or friends or relatives) or with the instructor. The actual writing of the paper, however, must be entirely the student’s own work.

Difference Between 2106 and 2106H: This class will cover the same list of economics topics as I cover when I teach a large lecture section of ECON 2106. The differences between 2106 and 2106H follow. First, the exams in 2106H (see below) will not have multiple-choice questions as do the exams in 2106. Second, the 2106H class will go into some topics in more depth (for instance, 2106H will use more algebra when investigating certain topics). Third, students will be required to write more (four) of the short essays, Fourth (and perhaps the most interesting difference) is that

2106H will cover some of the basic topics somewhat faster. [The one-day assignments (see below) will help achieve this result.] Doing so will allow us to spend half of some Thursday classes (see below) doing something other than Micro Principles.

Certain Thursdays: Assuming we meet the “faster” goal described above, I hope we can devote part of four or five Thursday classes — tentatively, the first such class would be on Thursday, Jan. 15th — to a semester-long study of a single economics-related current-events policy issue. By doing this we can study such an issue in a reasonable amount of depth. Note: the material covered in the policy-topic-Thursday classes would appear on the class tests.

Two possible topics are: (i) the economics of health care, and (ii) the current financial crisis/recession. On Tuesday, January 13th, we can pick one of these (or any other topic that any of you might suggest).

Exams: There will be three in-class exams and a final exam. All test questions will require written answers. Many of the questions will be “objective” in the sense that there is one definitely correct answer. Other questions will require a sentence or two of explanation. No questions will require lengthy written answers. Note that the objective exam questions will not be tests of pure “memorization”; many will instead require you to solve short problems.

The in-class exams take place on the following Thursdays: February 5th, March 5th, and April 9th. The exam will be the only class activity on those days. These three tests, which are noncomprehensive, cover the class materials (along with the relevant reading assignments and homeworks) presented up to and including the class preceding the exam. Much of that last class will be devoted to reviewing the relevant homework assignment and otherwise preparing for the exam.

Graded exams should be returned the Tuesday following an exam. Part of class that day will be spent reviewing the exam questions.

To give you an idea of the type of test questions used in this class, I’ll hand out some sample questions a week before the first exam. [Also, remember the other sample (web) questions described above.]

The (*comprehensive*) final is (in the regular room) at 12:00 noon on Thursday, May 7th.

No make-up exams will be given. If any circumstances that will prevent you from taking an exam arise, please contact me as soon as possible. If you miss an exam without making prior arrangements, you’ll receive a score of zero on that test.

Homework: Three homework assignments will be distributed during the semester. An assignment is due at the *beginning* of class on each of the following Thursdays: January 29th, February 26th; and April 2nd. In each case, the homeworks will be collected, recorded, and returned you at the start of the following class. Part of that class (which immediately precedes an exam) will be devoted to discussing the homework questions.

The homeworks are designed both to let you practice with some of the basic tools of economics and to help you prepare for some test questions. Your homework will be graded, and will factor into your semester grade. Note, though, that homework grades primarily depend on whether or not you make a legitimate effort to answer the questions correctly. As far as your grade is concerned, a legitimate effort on the homework is important; answering every question correctly isn’t.

Homework handed in after the beginning of class on the day it is due will *not* be accepted. While late homework will not be accepted, homework can be handed in early (up to 12:25 p.m. on the day the assignment is due) in my office.

Feel free to work together on the homework assignments. However, each of you must write up and submit an independent answer sheet — word-for-word copies will not be accepted.

One-Day Assignments: In addition to the (longer) homeworks, a few shorter assignments will be distributed (and will also be posted on the class web page). These assignments are meant to be completed and returned at the start of the next class. By completing these assignments, students will discover some basic economic ideas on their own. These assignments will count towards the final semester grade, but again effort is most important factor in earning points. Because you’ll

work through some fairly basic concepts outside of class, we'll be able to devote more class time to other topics.

Web Experiments: The class "meeting" on Tuesday, February 10th will not be a standard one. On that day, all members of the class are asked to participate in a web-based "experiment" (actually two different experiments) created by a company called Aplia.

Participating in the experiment is a class requirement, and is worth ten points towards your semester grade. Students who do not participate will get zero credit for this part of their grade.

Note that you don't have to be in any particular location in order to participate. [You do, however, have to participate at the designated time.] The experiments are conducted over the web; you can join in using any computer that has a reliable web connection and that has JavaScript and Flash 5 installed. [At the Aplia web site, you can run an automatic configuration test to check for these software packages.] UGA computers should work fine.

There's a \$15 charge for participating in the Aplia experiments.

The Aplia process will be most beneficial as a learning experience if you make all your own decisions during the experiment. If, however, the \$15 charge for Aplia is a serious impediment to participating, two students can share the experience (and the fee) by working as a group. Students who choose this option must all be in the same physical location, and must make their decisions during the experiment together.

Students who wish to participate as a group *must* e-mail their names — and a phone number at which they can be reached during the experiment — to Prof. Trandel no later than Monday, February 9th.

Each student — or one student on behalf of a group — needs to register directly at econ.aplia.com. Instructions for signing up, including the course key (i.e., code number) that you'll need, will be posted on the class web page. Please note that you must register and pay at least *one hour before* participating in the experiment. This time restriction is a real one — the Aplia software has to know how many people are participating so that it can assign roles to each player. If you don't meet the registration deadline, you may be able to observe the experiment, but you won't be able to participate in it.

The experiment will begin promptly at 12:45 on February 10th, and will take 50–60 minutes to complete. Under no circumstances will the experiment continue past the scheduled 1:45 end of the class period.

[In addition to the experiments, Aplia offers (at an additional cost) a substantial body of economics problem sets, news analyses, review materials, etc. This material is not assigned. If you want to obtain access to it (in order to use it as a study/review guide) please let Prof. Trandel know; we'll figure out how to get you permission to register (and pay) for the additional material.]

Grading: Semester grades will be computed using the following weights: three in-class exams (each worth 50 points), a final exam (worth 100 points), three homeworks, some number of one-day assignments, and class participation (a total of 20 points), four essays (a total of 20 points), and participation in the on-line experiment (10 points). There are thus 300 possible points. The exact grading scale will be described later. I do intend to make some use of the plus/minus grading system, which allows me to differentiate between (for example) the students at the top of the "B" grade range and the students at the bottom of that range.

If you have any special problems, such as a potential "incomplete" grade for the semester, you may wish to contact Rick Rose, Assistant to the Vice President for Student Affairs, at 542-3564.

Study Guide: Another class resource is available through the UGA Library: the *Study Guide* (written by Edward Scahill) that accompanies the Hubbard and O'Brien book. Since this book is *not required* for the class, it's not available at the book store. For those of you who wish to look at the *Study Guide*, a copy is available at the Library Reserve Desk. If, after inspecting the *Study Guide*, you decide that you'd like to have your own copy, let Prof. Trandel know, and a book may be made available for you to purchase.

Academic Honesty: I will strictly follow UGA's Academic Honesty Policy (see <http://www.uga.edu/honesty/>). Please note that under the policy possible penalties that could be imposed on a

student found guilty by the academic-dishonesty panel are: the assignment of an “F” in the relevant class, a notation on the student’s transcript, suspension, or expulsion from the University. I will report any violations of the academic honesty guidelines to the Office of the Vice President for Instruction.

Subsidized Lunch: On Friday, January 16th, you all are invited (if your schedule permits) to meet me for lunch at Barberitos (259 E. Clayton St.) at 1:30. Obviously, nobody is required to attend this outing, but if anyone does, it will give us a chance to talk outside of a classroom setting. As a small inducement to attend, I’ll contribute \$2 to help pay for the lunch of anybody who shows up.

If any of you would like to attend such a gathering, but can’t make the designated meeting because of class or work conflicts, feel free to suggest a time (and place) for a second meeting.

Relationship Between Lectures and Text: In this class, the lectures, the reading assignments, and the web activities are designed to complement each other. In order to get the full benefit of this class, therefore, you must attend lecture, read the textbook, do the homework, read the outside readings, and participate in the experiment.

The exams in this class reflect the fact that these materials are not perfect substitutes. While many of the test questions will be based on material that is covered both in class and in Hubbard and O’Brien, some questions will be based on lecture material that is not found in the other sources. On the other hand, some questions (no more than one or two per exam) may cover topics discussed in the text or in the readings, but not in class. I do not record attendance in this class, but this section should make clear that if you fail to attend lecture on a regular basis your performance in (and your grade for) the class will be seriously affected.

The Class and Classroom Behavior: Some of you may be a bit worried about this class. You may have heard that Microeconomics is a hard class, or that the topics in it are abstract or difficult to understand.

Obviously, I feel that there is great value in learning economics and the economic way of thinking. Part of the goal of this class is to help you understand various aspects of the world around you. Throughout the semester, I will try to emphasize how our classroom material explains features of the outside world. If I don’t do enough of this, challenge me on it — feel free to ask why any particular topic “matters”.

A microeconomics class requires much more than good memorization skills. To do well in this class, you’ll have to *analyze* events. I’ll provide examples designed to get you started thinking in this way.

Feel free to ask questions during lecture. I need to know when I am not being clear. Please ask questions — you will be performing a service for yourself, for your classmates, and for me.

Class Schedule

The class will cover all the topics listed on the following schedule, but perhaps not on the exact dates indicated. Whether we get ahead of schedule or fall behind, the in-class exams will be given on the dates indicated. Each exam will cover whatever material is actually discussed in class on the dates given below (and, of course, the appropriate homeworks and reading assignments).

Dates	Topic	Assignment
Jan. 8	Introduction; Marginal Analysis; Opportunity Cost; Gains From Trade	chs. 1, 2
Jan. 13, 15	Budget Constraints (Opportunities); Indifference Curves (Preferences)	pp. 317–328
Jan. 20, 22	BCs and ICs Together; Demand (Choice); Change in Quantity Demanded vs. Change in Demand	pp. 66–75, 295–297

Dates	Topic	Assignment
Jan. 27, 29	Elasticity; Behavioral Economics; Consumer Surplus (HMWK #1 due Thursday)	pp. 172–191, 196–207, 298– 313, 100–103
Tu, Feb. 3	catch up; discuss homework; prepare for exam	
Th, Feb. 5	EXAM I (covering January 7 – January 28)	
Tu, Feb. 10	Aplia Experiments: <i>Equilibrium Price and Quantity and Price Ceilings and Floors</i>	
Th, Feb. 12	review exam; Supply Curve; Supply & Demand Analysis	pp. 75–97
Feb. 17–19	Finish S&D; Producer Surplus; Market Efficiency; Restrictions on Markets; Commodity Tax; Economic Cost; Firm Production Costs	pp. 103–130, 98–99, ch. 10
Feb. 24–26	Firm Revenue; Profit Maximization; Profit Measurement; Perfect Competition in the Short Run (HMWK #2 due Thursday)	pp. 376–393
Tu, March 3	catch up; discuss homework; prepare for exam	
Th, March 5	EXAM II (covering February 10 – March 3)	
March 10–12	<i>No class</i> (Spring Break)	
March 17–19	review exam; Perfect Competition in the Long Run; Market Efficiency; Downward-Sloping Firm Demand and Marginal Revenue; Price Setting	pp. 393–417
March 24–26	Monopolistic Competition; Monopoly Pricing and Inefficiency; Pricing (<i>Note: Tues., March 24th is Withdrawal deadline</i>)	pp. 417–438, ch. 14
M. 31 – A. 2	Price Differentiation; Oligopoly; Game Theory; Nash Equilibrium; Prisoners' Dilemma; Chicken Game (HMWK #3 due)	ch. 15, pp. 440–454, 457–470
Tu, April 7	catch up; discuss homework; prepare for exam	
Th, April 9	EXAM III (covering March 17 – April 7)	
April 14–16	review exam; Externalities and Inefficiency; Environmental Policy; Public Goods	ch. 5
April 21–23	International Trade Issues; Labor Market; Economics of Information; Moral Hazard; Adverse Selection	ch. 8, pp. 534– 557, 564–572, ch. 17
Tu, Apr. 28	Application to Health Care; Government Behavior; opportunity to review exams I-III	pp. 598–604
Th, April 30	<i>No class</i> (M/W/F classes meet this day)	
Th, May 7	Comprehensive FINAL EXAM — 12:00 noon	