14.03: Intermediate Applied Microeconomics
Spring 1996

Instructor	**Teaching Assistants**
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Class Meetings: The class meets Tuesdays and Thursdays, 10:30 - 12:00, in 4-231. Sections will be finalized in class.

Text: Nicholson, Walter, *Microeconomic Theory: Basic Principles and Extensions*, New York: Dryden Press, 1995.

Course Reader: A packet of reading materials will be available in a few days at Graphic Arts. Readings will be assigned every week.

Problem Sets: This course will require weekly problem sets, which will be assigned every Tuesday and be due the following Tuesday in class. The problem sets will be discussed in section every Friday. The problems sets will have two parts: one part will include more technical problems out of the text book, and the second part will cover the assigned reading from the course reader. Late problems sets (late means any time after the end of class on Tuesday) will not be accepted. Questions on problem sets should be directed to TAs first when possible.

Grading: Problem sets 25%, midterm 30%, final 45%. The exams will be based on the textbook, the problem sets, and the assigned readings. The tentative date for the midterm is March 15, in section.

Electronic Locker/World Wide Web: We have an electronic locker arranged for the class, at /home/mit/14.03. This should be active as of Tuesday, February 4. Problem sets, the syllabus, reading assignments, and the reading list will be available there, either in text form, postscript form, or both. Text files will have the extension ".txt," while postscript files will have the extension ".ps". Further information will be in a file entitled "index.txt" in the directory. We hope to have a WWW homepage in a week or two.

COURSE OUTLINE

1. Introduction, Overview, and Tools

1.1. Overview of the Course
1.2. Review of Supply and Demand
1.3. Microeconomic Models, Comparative Statics, and Optimization

Application: The minimum wage debate.

2. Choice and the Theory of Demand

2.1. Rationality Axioms, Utility, and Indifference Curves
2.2. Constrained Utility Maximization
2.3. Individual Demand, Income and Substitution Effects
2.4. Market Demand, Substitutes and Complements, and Elasticities

Application: Giffen goods and the case of the Irish Potato.

3. Production and Supply

3.1. Production Functions
3.2. Production Costs and Cost Minimization
3.3. Comparative Statics on Input Prices; Substitutes and Complements
3.4. Non-standard Inputs
3.5. Short and Long Run Costs; Fixed Costs and Sunk Costs
3.6. Profit Maximization, Short and Long Run Supply
3.7. Alternative Models of the Firm/Economic Organization.

Application: Revising the consumer price index.
Application: The effects of changing the price of abortions.
Application: Modern (or "Japanese") manufacturing versus mass production.
Application: Alternative economic organizations.

4. Prices and Perfect Competition

4.1. Partial Equilibrium Price Determination
4.2. Long-Run Equilibrium
4.3. Applied Competitive Analysis
4.4. Exchange
4.5. General Equilibrium
4.6. Economic Efficiency and Welfare

Application: Taxing alcohol: saving lives versus consumer surplus.
Application: Free trade, GATT, and NAFTA.
Application: Paul Krugman on the fallacies of "competitiveness."
Application: Comparable worth and labor market discrimination.

5. Imperfect Competition and Market Power

5.1. Monopoly Pricing
5.2. Pricing in Imperfectly Competitive Markets
5.3. Strategy and Game Theory
5.4. Entry Deterrence
5.5. Oligopoly and Collusion

Application: Selling damaged goods to price discriminate.
Application: A $10 billion auction for the radio spectrum.
Application: Collusion in airline pricing.
Application: Entry deterrence in breakfast cereals.

6. Choice Under Uncertainty

6.1. Expected Utility
6.2. Risk and Risk Aversion
6.3. Insurance

Application: Farming in England 1300-1850.

7. Asymmetric Information

7.1. Moral Hazard
7.2. Adverse Selection
7.3. Advertising and Search

Application: The market for “lemons” (i.e., used car markets).
Application: Advertising in retail markets, and the example of eyeglasses.
Application: Franchising versus company-owned stores.

8. Limits of the Market

8.1. Externalities
8.2. Public Goods

Application: Using market mechanisms for environmental regulation.
Application: Using market mechanisms to induce organ donation.