

UNIVERSIDAD DE LA RIOJA

FACULTY OF BUSINESS MANAGEMENT

DEGREE IN BUSINESS MANAGEMENT

**PROGRAMME
MICROECONOMICS**

(Code 2071010)

YEAR 1 - YEARLY COURSE

CORE SUBJECT: 15 CREDITS

(Theoretical classes - 10 credits. In-class practicals – 5 credits.

Computer

in-class practicals – 0 credits)

Teachers:

Víctor M. Montuenga Gómez and Juan Luis Berzal Otero

Year 2004/2005

Department of Economics and Business Management

DESCRIPTION

Microeconomics is a branch of Economic Theory that attempts to explain the behaviour of individual economic agents, consumers and producers, as well as the way in which these act in given markets.

In the first term students are introduced to economics and consumer behaviour. In the second term they study production and cost theory and the way in which the markets operate.

PRIOR REQUISITES

None

GENERAL OBJECTIVES

Present an introductory overview of the problem of decision taking in Economics

Provide the basic Microeconomic Analysis instruments

Students acquire the necessary skills to analyze certain economic aspects

SPECIFIC SKILLS AND COMPETENCIES

Analysis and synthesis capacity

Basic general knowledge

Capacity to apply knowledge in practice

Capacity to learn

CONTACT ADDRESS

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METHODOLOGY AND WORK PLAN

The content of this subject will be developed based on the teaching-learning method. This enables the combination of techniques in which the teacher plays a key role in the knowledge transmission process (such as attendance-based master classes) with others in which the student is the protagonist in the learning process (this would include the completion and presentation of individual and group work, the search for information, practical activities,

etc.). This teaching-learning process must foster the achievement of the general objectives described above. The evolution of this process will be assessed in accordance with the criteria detailed in the corresponding section.

The nature of this subject involves a study methodology based on the comprehension and inter-relation of the concepts. Since the subject matter is extensive, we recommend students to “keep up to date” in the subject, i.e. by attending all attendance-based classes, formulating questions when teachers are explaining the subject, consulting recommended manuals, resolving proposed exercises and making adequate use of tutorial times. The course will combine the theoretical part with practicals, without there being an exclusive timetable devoted to these classes.

ASSESSMENT SYSTEM

At the end of the term students will take a partial examination that will exempt them from having to take a final examination. The first partial examination will cover the introductory topics and the consumption theory topics. The second partial examination will include production theory and market theory topics. The date of the partial examinations will be set in class as the topics are explained. Students will sit the final examinations in June and September. Students that pass the partial examinations will have passed the subject and will not have to take the examinations on the official date set for the final examinations. On that date, students who have failed any of the partial examinations will take the examination corresponding to the part/s that they have not passed. Partial examinations that are passed will not be carried over until September. The examinations will be theoretical-practical in nature and will include theoretical questions and problems relating to the material explained in class. In order to pass each examination, students must obtain a minimum of 5 points from a total of 10.

RECOMMENDATIONS AND SUGGESTIONS ON PREVIOUS AND SUBSEQUENT SUBJECTS

”Microeconomics” is fundamental for all subsequent subjects that focus on the rational behaviour of agents, such as strategic behaviour, marketing, finance, etc. It is also essential in order for students to be able to follow “Macroeconomics”, which also belongs to the generic branch of Economics.

PROGRAMME

PART ONE: INTRODUCTION

Topic 1. The object of Economic Science. Microeconomics

OBJECTIVES: define the basic concepts and describe the basic behavioural patterns in Economics

- 1.1 Basic concepts
- 1.2 Price allocation systems. The market
- 1.3 Decision taking.
- 1.4 The relations between economic agents
- 1.5 The functioning of the Economy

BIBLIOGRAPHY: chapter 1 of Mankiw (1998).

Topic 2. Method in Economic Science

OBJECTIVES: describe the functioning of the Economy as a science

- 2.1 Economics as a science
- 2.2 The scientific method. Economic models
- 2.3 Characteristics of economic models
- 2.4 Two examples of economic models

BIBLIOGRAPHY: chapter 2 of Mankiw (1998).

Topic 3. Introduction to Macroeconomics

OBJECTIVES: distinguish between Microeconomics and Macroeconomics, briefly referring to the latter.

- 3.1 The object of study of Microeconomics
- 3.2 Economic aggregates: mounts, prices and money
- 3.3 Income and expenditure in an economy
- 3.4 Unemployment, inflation, growth and economic cycles

BIBLIOGRAPHY: chapter 22 of Mankiw (1998).

PART TWO: CONSUMPTION THEORY

Topic 4. Consumption theory. Preferences and utility

OBJECTIVES: present the basic structure of consumption theory: the representation of the preferences of individuals and the function of utility

- 4.1 Basic concepts
- 4.2 Axiomatics of the ordering of preferences
- 4.3 Indifference curves
- 4.4 The Function of utility. Marginal Utility

4.5 The Marginal Rate of Substitution

4.6 Examples of utility functions and preferences

BIBLIOGRAPHY: chapters 3 and 4 of Varian (1998).

Topic 5. Consumer equilibrium

OBJECTIVES: present the basic rational action of consumers: the maximization of utility

5.1 Budgetary restriction

5.2 Choice. Conditioned utility maximization

5.3 Ordinary demand system.

BIBLIOGRAPHY: chapters 2 and 5 of Varian (1998).

Topic 6. Demand

OBJECTIVES: present the obtainment of consumer demand

6.1 Price and income variations

6.2 Individual demand. The concept of elasticity.

6.3 Market demand

6.4 Consumer surplus

BIBLIOGRAPHY: chapter 6 of Varian (1998).

Topic 7. Substitution and income effects

OBJECTIVES: describe optimum consumer choice

6.1 The variation in the price of a good. Substitution and income effect

6.2 Substitution and income effects: the Slutsky equation

6.3 Substitution and income effects: the Hicks equation.

6.4 The law of demand: Slutsky equation

BIBLIOGRAPHY: chapter 8 of Varian (1998).

Topic 8. Applications of consumption theory

OBJECTIVES: present other situations in which consumer theory is applied

8.1 Revealed preference theory

8.2 Choice in situations of uncertainty

8.3 Income-leisure choice theory. The function of individual work offer

8.4 Intertemporal choice theory

BIBLIOGRAPHY: chapters 7, 10, 12 and 14 of Varian (1998).

PART THREE: PRODUCTION THEORY

Topic 9: Technology

OBJECTIVES: present the basic theory of production theory

- 9.1 Production and output factors
- 9.2 Overall production factors, function of production and isoquants
- 9.3 The productivity of factors
- 9.4 The technical rate of substitution. The elasticity of substitution
- 9.5 Returns to scale

BIBLIOGRAPHY: chapter 17 of Varian (1998).

Topic 10. The maximization of profits

OBJECTIVES: present the rational behaviour of companies: the maximization of profit

- 10.1 The function of company profits
- 10.2 The maximization of profit in the short term
- 10.3 The maximization of profit in the long term
- 10.4 Inverse factor demand curves

BIBLIOGRAPHY: chapter 18 of Varian (1998).

Topic 11. The minimization of costs: cost curves

OBJECTIVES: present a second objective of companies: minimize costs

- 11.1 Economic notion of cost
- 11.2 Conditioned cost minimization
- 11.3 Conditioned factor demands and the function of cost
- 11.4 Mean and marginal short and long-term costs
- 11.5 Producer surplus

BIBLIOGRAPHY: chapters 19 and 20 of Varian (1998).

PART FOUR: MARKET THEORY

Topic 12. The competitive market

OBJECTIVES: define “market” and present the basic operating structure of the perfect competitive market:

- 12.1 Types of markets. Perfect competition
- 12.2 The offer of a competitive company in the short and long term
- 12.3 The equilibrium of the competitive market
- 12.4 Economic income
- 12.5 Stability and efficiency. Comparative Static Analysis. State intervention

BIBLIOGRAPHY: chapters 21 and 22 of Varian (1998).

Topic 13. The monopoly

OBJECTIVES: present the behavioural patterns of monopolies

- 13.1 The problem of the monopolist
- 13.2 Inefficiency and the social cost of monopolies
- 13.3. The natural monopoly
- 13.4 The regulation of monopolies
- 13.5 The discriminatory monopolist

BIBLIOGRAPHY: chapter 23 of Varian (1998).

Topic 14. Monopolistic competition and factor markets

OBJECTIVES: present alternative market structures

- 14.1 Monopolistic competition
- 14.2 The monopsony
- 14.3 The bilateral monopoly

BIBLIOGRAPHY: chapter 14 of Varian (1998).

Topic 15. The oligopoly

OBJECTIVES: present a very broad market structure

- 15.1 The reaction curve concept
- 15.2 Stackelberg's model
- 15.3 Cournot's model
- 15.4 Collusion
- 15.5 Bertrand's model

BIBLIOGRAPHY: chapter 25 of Varian (1998).

Topic 16. Introduction to Games Theory

OBJECTIVES: present the basic elements of Games Theory

- 16.1 Cooperative and non-cooperative games
- 16.2 Concept of strategy. Types of strategies
- 16.3 Nash's Equilibrium Theory. The Prisoner's Dilemma
- 16.4 Repeated games. Consecutive games. Introductory games

BIBLIOGRAPHY: chapter 26 of Varian (1998).

BASIC BIBLIOGRAPHY

Mankiw, N. G (1998): Principios de Economía. Madrid: McGraw-Hill.

This manual serves as a good introduction to economic theory and as a starting point for each of the topics that will be studied in the course. It is highly intuitive, supported by graphical explanations, but lacks any mathematical instrumentation.

Varian, H. R. (1998): Microeconomía Intermedia. Barcelona: Antoni Bosch.

This is the basic manual for following the “Microeconomics” course and the key support tool for understanding all the concepts. It is more advanced than the previous manual and all the modules are presented in a structured, continuous and rigorous manner. Through intuitive explanations it uses a graphical approach to develop almost all the analyses, leaving mathematical instruments for explanation in the appendices.

Nicholson, W. (2004): Teoría Microeconómica: Principios básicos y ampliaciones. Madrid: Thomson.

The conceptual and formal level of this manual is more advanced than the previous two publications; it offers an in-depth study of the aspects presented in the aforementioned publications and also includes other topics not covered in same. Recommended for students who wish to achieve a very advanced level of knowledge.

ADDITIONAL BIBLIOGRAPHY

During the course students will be presented with lists of problems, some of which will be resolved in practical classes. These problems may be supplemented with those which appear in the recommended manuals listed below, in both the theoretical manuals and the exercise manuals.

Theoretical books

Estrin, S. y Laidler, D. (1995): *Microeconomía*, Ed. Prentice Hall.

Frank, R. (2001): *Microeconomía y conducta*, Ed. Mc Graw Hill (4ª edición).

Martín Simón, J.L. (2003): *Principios de Economía*, Ed. Pearson-Prentice Hall.

Nicholson, W. (1997): *Teoría microeconómica*, Ed. Mc Graw-Hill (6ª edición).

Pyndick, R. S. y Rubinfeld D.L. (2003): *Microeconomía*, Ed. Prentice Hall (5ª edición).

Exercise and question books

García Pardo, J. y Sebastián, M. (1999): *Ejercicios de introducción de la Microeconomía*, Ed. Mc Graw-Hill (2ª edición),.

Congregado, E., Golpe, A. y Leal, T. (2002). *Microeconomía. Cuestiones y problemas resueltos*, Ed Prentice Hall.