

PUBP720: Managerial Economics and Policy Analysis

Fall 2003

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office hours: Th 6:00 PM - 7:00PM.

course credit: 3

1st Day: *August 27*

location: Arlington (Old Building) room to be determined

meeting time: W 7:20 - 10:00PM

Description

OBJECTIVES

This course is an advanced survey of microeconomic theory. Its purpose is to provide a firm microeconomic foundation for the analysis of public policies by examining the operation and imperfections of markets. The course is intended to provide the student with the capability to understand economic literature and theories.

COURSE OUTLINE

This course is divided into three parts. The first section focuses on the theory of the consumer, with an ultimate aim of understanding how preferences and utility maximization lead to consumer demand for goods and services. The second part of the course examines the theory of production, leading toward the development of supply curves. Supply and demand are brought together in an analysis of competitive markets and an evaluation of economic welfare. The third part of the course then focuses on sources of market failure, including monopoly power, externalities, public goods and imperfect information. While the course will emphasize microeconomic theory, a number of case discussions and policy issues will be used to motivate the material.

AUDIENCE

PUBP720 is a core MPP course. It is also a "bridge course" into Ph.D. level microeconomics courses for students with little prior background in economic analysis, but who are, at minimum, comfortable with algebra.

EXPECTATIONS

Course requirements include regular attendance and participation in lectures (not graded), completion of four problem sets (best three worth 20 percent of grade), a mid-term examination (30 percent), and a three-hour, cumulative final examination (50 percent).

Problem sets are an essential part of this course. Problem sets will require students to go above

and beyond the material presented in class, and to apply the economic concepts to situations we have not yet encountered in lectures. Students will also be assigned to study teams of 3-4 individuals. However, each student must independently submit problem set answers. Assignments to work teams will be based upon responses to a class survey administered in the first two weeks of the course to gauge approximate levels of prior coursework in calculus and microeconomics. Students are expected to devote no less than 1.5 hours to the efforts of the study team per problem set—either in person (preferable), or “virtually.” Each problem set will be assigned a due date when issued. Because solutions are handed out on the due date, late problem sets lose 50% of the possible points. Problem sets that are more than 24 hours late are not accepted.

COURSE MATERIALS

The texts for the course is Walter Nicholson, *Microeconomic Theory: Basic Principles and Extensions*, 8th edition (2002). The alternate text is Robert Pindyck and Daniel Rubinfeld, *Microeconomics* 5th edition. Both texts are available at the GMU bookstore—Arlington. Supplementary readings and cases will be available from either in a course reading packet, from the library (via online resources), or directly from me in PDF format. If you have not done so already, please familiarize yourself with the library’s online resources, and make sure that you have access to Adobe Acrobat Reader. Please note the "N" below refers to the Nicholson text; “P&R” refers to Pindyck and Rubinfeld.

Syllabus

PART I: THEORY OF THE CONSUMER

1. August 27: Overview of the course; consumer preferences

N: Chapters 1 and 3

P&R: Chapters 1 and 2

in class exercise: Math review.

2. September 3: Indifference Curves, Utility Functions, and Utility Maximization

N: Chapter 4

P&R: Chapter 3

assignment #1 distributed

in class exercise: Preferences for power and portability in the market for laptops.

3. September 10: Utility maximization; income and substitution effects

N: Chapters 5 & 6 N: Chapter 5 & 6 for next 2 lectures [pp. 136-139 optional]

P&R: Chapters 3 (continued) and 4 (appendix, pp. 139-147)

reading: Hicks (1933, chapter 1), Dasgupta (1995)

focus topic: Fertility choice.

4. September 17: Review of consumer theory, Measures of consumer welfare; Review of problem set #1

assignment #1 due; #2 distributed

PART II. THEORY OF PRODUCTION AND COMPETITIVE MARKETS

5. September 24: Property Rights, Contracting and Bargaining; Production and the Theory of the Firm

N: Chapter 11, Chapter 24 (pp. 659-669)

readings: Coase (1960), Chandler (1992), Barzel and Kochin (1992)

focus topic: Battle of the nature lovers.

6. October 1: Production, costs, and profits

N: Chapter 12 (to page 318), chapter 13 (to page 354)

P&R: Chapters 6 and 7

reading: Argote and Epple (1990)

7. October 8: Production (continued)

assignment #2 due; #3 distributed

8. October 15: MID-TERM EXAM (90 minutes, in class)

PART III. MARKET FAILURE

9. October 22: Market equilibrium and industry evolution

N: Chapters 14 and 15

P&R: Chapter 4 and 8

focus topic: Boom and bust in rubber (automobile tires) and bits (dot.coms).

10. October 29: Efficiency and the analysis of competitive markets

N: Chapter 17 (to p. 471)

P&R: Chapter 9

reading: Caves, Frankel, and Jones (2002, chapter 3)

focus topic: International trade and comparative advantage.

11. November 5: Game theory, economic dynamics, monopoly and oligopoly

N: Chapters 18 and 19

P&R: Chapters 10-13

readings: Shubik (2000); Arthur (1990), U.S. vs. Microsoft, Findings of Fact (excerpts)

assignment #3 due, #4 distributed

focus topic: The U.S. vs. Microsoft.

12. November 12: Externalities and Public Goods

N: Chapter 24

P&R: Chapter 14

reading: Arrow (1962)

focus topic: The economics of innovation.

13. November 19: Risk and uncertainty; social welfare; regulation

N: Chapters 8 and 9, chapter 13 (pp. 355-362), chapter 25 (pp. 691-693)

readings: Friedman (1982, pp. 161-166), Sen (1999)

P&R: Chapter 5

readings: Hahn and Stavins (1992)

focus topic: Trade in trash.

14. December 3: Review of the course

December 10: FINAL EXAM—2.5 HOURS, CUMULATIVE

References

- L. Argote and D. Epple. Learning curves in manufacturing. *Science*, 247:920-924, 1990. [JSTOR]
- K. J. Arrow. Economic welfare and the allocation of resources from invention. In R. R. Nelson, editor, *The Rate and Direction of Inventive Activity: Economic and Social Factors*. Princeton University Press, 1962. [Reading packet]
- W. B. Arthur. Positive Feedbacks in the Economy. *Scientific American*, Vol. 80 (December): 92-99, 1990. [Reading packet]
- Y. Barzel and L. Kochin, 1992. "Ronald Coase on the Nature of Social Cost as a Key to the Problem of the Firm," *Scandinavian Journal of Economics*, 94:19-31. [Reading packet]
- Caves, Frankel, and Jones, 2002. *World Trade*. [PDF from PA]
- A. D. Chandler, 1992. Organizational Capabilities and the Economic History of the Industrial Enterprise. *Journal of Economic Perspectives*, 6(3): 79-100, Summer 1992. [JSTOR]
- R. Coase. The problem of social cost. *Journal of Law and Economics*, 3:1-44, 1960. [Reading packet.]
- P. Dasgupta. The population problem: Theory and evidence. *Journal of Economic Literature*, XXXIII:1879-1902, December 1995. [JSTOR]
- M. Friedman. *Capitalism and Freedom*. University of Chicago Press, 1982. [Reading packet.]
- R. W. Hahn and R. N. Stavins. Economic incentives for environmental protection: Integrating theory and practice. *American Economic Review*, 82(2):464-468, May 1992. [JSTOR]
- Hicks, J. R. *Value and Capital*, Oxford University Press, 1933. [Reading packet]
- A. Sen. The Possibility of Social Choice. *American Economic Review*, 89(3): 349-378, June 1999. [Reading packet.]
- T. C. Schelling. Some economics of global warming. *American Economic Review*, 82(1):1-14, March 1992. [JSTOR]
- M. Shubik. Game Theory: Some Observations. Yale School of Management Working Paper #132, 2000. [PDF]
- U.S. vs. Microsoft, Findings of Fact [PDF from PA].