

Chaminade University
Honolulu, Hawaii 96816

BU342 **Intermediate** Microeconomics
Instructor: Dr. **Klauser**

COURSE TITLE: Intermediate Microeconomics

TEXT: David **Hyman**, , 3d ed., IRWIN, 1993.

Maurice/Thomas, **Managerial Economics**, 6th ed., IRWIN, 1999.

COURSE OBJECTIVE: This course seeks to provide advanced understanding of the working and effects of the price system in allocating scarce resources among alternative uses to satisfy human wants.

We will examine the theories that explain how individual economic units like **consumers**, firms, and resource owners determine the allocation of productive resources. We will analyze how price and output decisions are made under various market structures such as competition, monopoly, oligopoly, and monopolistic competition. We will also study when we can rely on the free market to achieve efficient allocation of resources and when we can not do so, and what approaches exist to deal with market failures.

MAJOR ASSIGNMENTS: Study the assigned readings and do the homework problems. (**The** homework problems must be turned in on time). Take the tests and **examinations**. Attend classes regularly and on time.

<u>GRADING</u>	1st Test	100 Points	(30% of final grade)
	2d Test	30 Points	(10% of final grade)
	Final Examination .	100 Points	(30% of final grade)
	Problem write-ups .	100 Points	(30% of final grade)

Why Study Microeconomics?

We think that after reading this book, you will have no doubt about the importance and broad applicability of microeconomics. In fact, one of our major goals is to show you how to apply microeconomic principles to actual decision-making problems. Nonetheless, some extra motivation early on never hurts. Here are two examples that show the use of microeconomics in practice and also provide a preview of the book.

Corporate Decision Making: Ford Introduces the Taurus

In late 1985 Ford introduced the Taurus—a newly designed, aerodynamically styled, front-wheel-drive automobile. The car was a huge success at the time and helped Ford almost to double its profits by 1987. The design and efficient production of this car involved not only some impressive engineering advances but a lot of economics as well

First, Ford had to think carefully about how the public would react to the Taurus's design. Would consumers be swayed by the styling and performance of the car? How strong would demand be initially, how fast would it grow, and how would demand depend on the price Ford charged? Understanding consumer preferences and trade-offs and predicting demand and its responsiveness to price were essential parts of the Taurus program. (We discuss consumer preferences and demand in Chapters 2, 3 and 6)

Next, Ford had to be concerned with the cost of the car. How high would production costs be, and how would this depend on the number of cars Ford produced each year? How would union wage negotiations or the prices of steel and other raw materials affect costs? How much and how fast would costs decline as managers and workers gained experience with the production process? And to maximize profits, how many cars should Ford plan to produce each year? (We discuss production and cost in Chapters 1 and 11 and the profit-maximizing choice of output in Chapter 13)

Ford also had to design a pricing strategy for the car and consider how its competitors would react to this strategy. For example, should Ford charge a low price for the basic stripped-down version of the car but high prices for individual options, such as air conditioning and power steering? Or would it be more profitable to make these options "standard" items and charge a high price for the whole package? Whatever prices Ford chose, how were its competitors likely to react? Would GM and Chrysler try to undercut Ford by lowering prices? Might Ford be able to deter GM and Chrysler from lowering prices by threatening to respond with its own price cuts? (We discuss pricing in Chapters 15 and 16 and competitive strategy in Chapters 15 and 16)

The Taurus program required a large investment in new capital equipment, and Ford had to consider the risks involved and the possible outcomes. Some of this risk was due to uncertainty over the future price of gasoline (higher gasoline prices would shift demand to smaller cars), and some was due to uncertainty over the wages that Ford would have to pay its workers. What would happen if world oil prices doubled or tripled again, or if the government imposed a new tax on gasoline? How much bargaining power would the unions have, and how might this affect wage rates? How should Ford take these uncertainties into account when making its investment decisions? (Commodity markets and the effects of taxes are discussed in Chapters 18 and 19. Labor markets and union power are discussed in Chapter 19. Investment decisions and the role of uncertainty are discussed in Chapters 18 and 19)

Finally, Ford had to think about its relationship to the government and the effects of regulatory policies. For example, the Taurus had to meet federal emission standards, and production line operations had to comply with health and safety regulations. How were these regulations and standards likely to change over time? How would they affect the company's costs and profits? (We discuss the role of government in limiting pollution and promoting health and safety in our last class meeting.)

COURSE OUTLINE

1st Meeting: Scope of Managerial Economics.

Assignment: Text Chapter 1.

Supply and Demand Analysis and Application.

Assignments: Text Chapter 2; and do the following Technical Problems on pp.66-- : 5; 10; 12 a,c,d; 13 a,b,c; 14; 17 a b; 18a,b,c.

Do the following Applied Problems on pp.70--: 2, 4, 5, 7, 9,14.

Answer the problems with the use of graphs whenever appropriate. This holds true for all future write-ups.

Turn in the write-ups at our 2d class meeting.

2nd Meeting: Analysis of Market Demand and Elasticities.

Assignments: Text Chapter 3 (mathematical appendix optional).

Do pages 105-- Techn Problems: 1, 2, 4, 10, 11.

Do pages 109-- Applied Problems: 1, 2, 5, 6, 10.

Do the additional problems that will be given out in class.

Turn in the write-ups at our 3rd class meeting.

Estimating the Demand Function and Forecasting Demand.

Assignments: Text Chapter 7 and Chapter 8.

Analysis of Optimizing Behavior.

Assignments: Text ChA. (Appendix pp.147-150 is optional. The Appendix is highly recommended for students who wish a mathematical treatment of optimization).

Do Techn Problems on pp.140--: 4; 6 a,b,c; 10; 15.

Do Applied Problems on pp.143--: 2; 4a,b; 7a; 8; 11a.

Turn in the write-ups at our 3rd class meeting.

3rd Meeting: Theory of Consumer Behavior: Demand Analysis for the individual--Utility and Indifference Curve Approach.

Assignments: Text Ch.6. (Appendix pp.247-249 optional. Recommended for students with a strong mathematical background).

Do Techn Problems on pp.237--: 2; 6; 7; 11.

Do Applied Problems on pp.243--: 1; (7 & 12 optional).

Turn in the write-ups at our 4th class meeting.

4th Meeting: First Test

5th Meeting: Principles of Production in the Short Run and Costs of Production in the Short Run.

Assignments: Text Chapter 9. (Appendix optional. Recommended for students who wish a mathematical derivation of production and cost relations).

Do TechnProblems on pp.348--: 2; 5; 6; **13a,b,c**.

Do AppliedProblems on pp.352--: 1; 2; 3; 4; 6; 7; 9; 10; 11;

*Turn in the **write-ups** at our 611; class meeting.*

Principles of Production in the Long Run and Costs of Production in the Long Run.

Assignments: Text Ch. 10. (Appendix Optional).

Do TechnProblems on pp.392--: 1; 3; 4; 7.

Do AppliedProblems on pp.397--: 1; 2; 3; 4; 5; 10 & **12 optional**.

*Turn in the **write-ups** at our 611; class meeting.*

6th Meeting: '2nd Test (One hour test covering chapters 9 and 10).

6th Meeting: Pricing and Output Decisions under Perfectly Competitive Market Conditions.

Assignments: Text Chapter 12. (Appendix Optional).

Do TechnProblems on pp.467--: 1; 3; 4a; 5a; 6; 9; 11.

Do AppliedProblems on pp.474--: 1; 5; 6; 7; 10.

*Turn in the **write-ups** at our 711; class meeting.*

Pricing and Output Decisions under Monopolistic Market Conditions.

Assignments: Text Ch. 14 pp. **502-527**. (Appendix Optional).

Do TechnProblems on pp.534--: 1; 6; 7; 8.

Do AppliedProblems on pp.540--: 4; 5; 6; 7.

*Turn in the **write-ups** at our 7th class meeting.*

7th Meeting: Pricing and Output Decisions under Monopolistic Competition.

Assignments: Text Chapter 14, pp.527-534.

Do TechnProblems on pp.534-: 14, 16

Do Applied Problems on pp.540-: 10, 12.

Pricing and Output Decisions under Oligopoly.

Assignments: Text Chapter 15, pp.545-588 (Appendix Optional).

Do TechnProblems on pp.588-: 3, 4, 9, 10, 13.

Do Applied Problems on pp.593-: 1, 5, 7, 8, 9, (6 optional).

Turn in the write-ups at our 8th class meeting.

8th Meeting: Pricing and Output Decisions under Multiple Plants and Multiple Markets.

Assignments: Text Ch. 17 pp.612-627.

Do TechnProblems pp.643-: 1, 4a, b.

Do Applied Problems on pp. 647-: 2, 3, 4, 7, 10, 11, (8 optional).

Turn in the write-ups at our 9th class meeting.

Decision Making under Uncertainty and Risk.

Assignments: Text Ch. 18 pp.652-691 (Appendix Optional).

Do TechnProblems on pp.691-: #1 (assume σ^2 for Distr 1 = 120 and σ^2 for Distr 2 = 164.75); and Problem #2.

Do ApplProblems on pp.695-: 2; 3; 4a,b,d (assume 0.=183;6,757) and f.

Turn in the write-ups at our 9th class meeting.

9th Meeting: Government and the Economy: When can we rely on the free market to achieve our goal of **efficient** allocation of resources (Pareto Optimum), and when can we not rely on the free market to do so? Market failures due to market power; lack of information; public goods; and externalities. Policy options to deal with market failures.

Assignments: Do the readings that will be given out in class.

10th Meeting **FINAL EXAMINATION**