

American University
Department of Economics

ECON-200-07 Microeconomics Spring 2009
Tuesday-Friday 8:30-9:45 PM, Ward 106

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Office Hours:
Tuesday 5:30-7:00 PM
Friday 11:30 AM-1:00 PM,
and by appointment

General Education: Econ-200, Microeconomics, is a second level course that, when taken together with Econ-100 (Macroeconomics), satisfies the General Education requirement for Curricular Area 4, Social Institutions and Behavior.

Course Objectives: This course presents an economic approach to thinking about how and why modern economies work and about making rational decisions about scarce resources. Microeconomics provides a disciplined way to think about tradeoffs, about the outcomes of interactions among economic actors, and about how incentives affect behavior. The focus is on the operations of a market economy as well as the interaction between markets and government. Microeconomic analysis offers a framework for judging the effectiveness of alternative policies and institutions and provides guidelines for thinking about personal financial decisions. It yields answers to “big-think” and “little-think” questions, such as:

Big think

What are the microeconomic elements driving the financial crisis?
In what ways do markets yield socially optimal results? What corrections to market outcomes yield improved economic outcomes?
What difficulties are mortgage and housing markets facing?
What caused gas prices to rise and fall sharply in 2008? What, if anything, should the government do about it?
Does the expanding international trade help or hurt U.S. households?
What are best ways of collecting taxes and of helping the poor?
What functions are served by the stock market and other parts of the financial system?
How can we use the market system to deal with environmental and energy concerns?

Little think

What strategy should I use to determine how I save and invest?
How do I raise money to start a company? What are the best approaches?
How much schooling should I complete?
How should I choose among alternative ways of financing a home?

This course offers a way of thinking relevant not only to economics, but also to political science, sociology, international affairs, philosophy, anthropology, and history. Hard-working students will come to understand how to apply economic principles to personal finance and to public policy issues involving health, welfare, education, the environmental, and trade. Many issues raised in the political world deal with economic issues directly addressed in this course.

Required Text, Readings, Supplements: R. Glenn Hubbard and Anthony Patrick O’Brien. *Microeconomics*. 2008. (2th edition). The e-book is integrated with MyEconLab (an on-line educational resource).

In addition to the text, we will read and discuss six chapters from the 2008 *Economic Report of the Presidents* (ERP). For five chapters, each student will write a 1-2 page reaction papers as part of your

homework. The papers will highlight what you find interesting and where you might agree or disagree. It can highlight one or two points, but should display some thinking. We will take time for any questions you may have about the chapter and then discuss the chapters. All the chapters as well as power points will be available on blackboard.

You will also be using MyEconLab for this course. MyEconLab is an online product that comes with new textbooks, whether e-books, notebook pages, or the standard text. It incorporates both a digital version of the textbook and online homework. You can purchase the product on-line at www.MyEconLab.com or through the bookstore. In addition, you can buy the standard text at the bookstore or from MyEconLab. MYECONLAB includes an array of learning aides, tutorials, self-testing, and special content. Students will complete their homework at the MyEconLab site as well. Students should register after receiving the instructions. We will be using this site for special readings that will guide our discussions, for problem sets, and for tutorials. Students can use the site for practice tests as well. ***It is critical that you keep up with the homework. Many students have performed well on exams and projects, but done poorly on electronic homework, such as MyEconLab. You are welcome to collaborate and work together on the homework.***

You might wish to purchase or share a 15 week subscription (or longer) to the Wall Street Journal (which includes on-line access). The student price is \$29.95 for both the print and web subscription for 15 weeks. Reading articles in the WSJ will provide interesting current illustrations of the topics covered in the course. Sign up at <http://subscribe.wsj.com/semester>.

For those interested in a conversational presentation of some of the issues, I recommend buying (it is inexpensive) and reading chapters from Charles Wheelan. 2002. *Naked Economics: Undressing the Dismal Science*. W.W. Norton and Company.

Course Evaluation:

Two Midterm Exams	34%
Final Exam	30%
Problem Sets, Reaction Papers	20%
Student Project and class discussion	16%

The first midterm will be held in class on **Tuesday, February 17**. The second midterm exam will take place in class on **Tuesday, March 24**. The final exam will be cumulative and will be held on **May 5** from **8:30-11:10 AM**. Students will receive a number of review questions as a guide to the examination questions. In addition, I will occasionally assign short written assignments.

One way of learning about markets is to study how individual sectors actually operate in the economy. As an active learning project for this class, students will work in teams of four people to study specific industries and make a class presentation on various aspects of the development of industries such as steel, airlines, textiles, oil, and computer hardware. The industry analyses will cover several of the following: trends in employment, revenue, productivity, and profitability; the structure of the industry; the competitive nature of the industry; the turnover of firms; the causes of industry growth and decline; and the extent of government intervention into the industry. Class presentations will take place during the last three classes of the semester. Each presentation will last 15 minutes. Students will hand in outlines of their presentation no later than two weeks before they are to appear. Sources for the project include material from the electronic book, *US Industry in 2000*, from the book, *Innovation in Global Industries* (both National Academy Press), and materials you can access through the Sloan Industry Studies website, <http://www.industry.sloan.org/centershome.asp>.

Attendance is mandatory in the class. Each student will be allowed three unexcused absences. Students will be assessed a deduction from their grades of 1 point for additional absences.

Students must take the tests at the listed times. No make-up tests will be allowed except for unusual circumstances. It is the responsibility of students to plan their travel, leisure and extracurricular activities, and jobs so that they do not conflict with classes and exams.

My presentations will emphasize aspects of the readings but will not cover everything. Students should read the material before the lecture (I suggest at least twice) and come with questions on issues they do not understand. The class will involve class discussion of text material, problems, and current events. Some of the issues raised in the discussions could be on the exams. In addition, together we will raise and discuss news topics that illustrate aspects of microeconomics.

Dates	Topics, Readings
January 13	Overview of Economic Approach Hubbard and O'Brien, Chapter 1 ERP, Chapter 1: The Year in Review and the Years Ahead
January 16	Review of Basic Concepts Scarcity and Trade, Notion of Market Economy Hubbard and O'Brien, Chapter 2
January 20	Inauguration Day—No Class
January 23	Prices and Markets—Basics of Supply and Demand Hubbard and O'Brien, Chapter 3 <i>1st reaction paper due on Chapter 1 of ERP</i>
January 27	How Sensitive Are Prices to Changes in Supply or Demand? Hubbard and O'Brien, Chapter 6 ERP, Chapter 3: The Causes and Consequences of Export Growth
January 30	Economic Efficiency, Consumer Surplus, Using Supply and Demand Hubbard and O'Brien, Chapter 4
February 3	International Trade Hubbard and O'Brien, Chapter 8
February 6-10	Consumer Demand and Behavioral Economics Hubbard and O'Brien, Chapters 9 <i>2nd reaction paper due on Chapter 3 of ERP</i>
February 13	Technology and Costs Hubbard and O'Brien, Chapter 10
February 17	<i>First Midterm Examination</i>
February 20	Perfect Competition Hubbard and O'Brien, Chapter 13,
February 24	Monopolistic Competition Hubbard and O'Brien, Chapter 11 Readings from <i>U.S. Industry in 2000</i> . National Academy Press. Electronic book through Aladin.

February 27- March 6	<p>Financing Firms and Households Hubbard and O'Brien, Chapter 7 and Chapter 7: Appendix</p> <p>Bodie, Zvi. "A Note on Economic Principles and Financial Literacy." (on Blackboard).</p> <p>Stock and bond indices in the Wall Street Journal or www.wsj.com. ERP, Chapter 2: Credit and Housing Markets</p>
March 10-13	No Class—Spring Break
March 17 & March 20	<p>Oligopoly and Monopoly Hubbard and O'Brien, Chapters 13-14 <i>March 20: 3rd reaction paper due, on Chapter 2 of ERP</i></p>
March 24	2nd Midterm Examination
March 27	<p>Pricing Strategy Hubbard and O'Brien, Chapter 15</p> <p>ERP, Chapter 6 "The Nation's Infrastructure" ERP, Chapter 7,</p>
March 31-April 3	<p>Labor and Other Factor Markets Hubbard and O'Brien, Chapter 15</p>
April 7-10	<p>Externalities and Public Goods Hubbard and O'Brien, Chapter 5 <i>4th reaction paper due on Chapter 6 or Chapter 7 of ERP</i></p> <p>Outline of Industry Presentation Due</p>
April 14-17	<p>Taxes and Government Social Benefits Hubbard and O'Brien, Chapter 18</p> <p>ERP, Chapter 5 "Tax Policy"</p>
April 21- April 28	<p>Student Industry Reports <i>5th reaction paper due on Chapter 5 of ERP</i></p>
May 5	Final Examination 8:30-11:10