Microeconomics for Policy and Business
Central European University
Department of Economics
Academic Year 2015/16

General Information

Instructor: Alessandro De Chiara
E-mail: dechiaraa@ceu.edu
Office: Nádor utca 11, room 406
Office hours: by appointment
Teaching Assistant: Julian Adam
Course Level: This is a compulsory core course for the first-year master students of the MSc in Business Analytics
Semester: Fall 2015
Credits: 4 credits (8 ECTS credits)
Course Webpage: the teaching material will be made available on the e-learning website

Overview and Objectives

Microeconomics studies how individual market participants, like households and firms, make their choices from the alternatives available to them. It also studies how such choices interact in the market to determine prices and resource allocations. A thorough understanding of microeconomics will be useful for any economic course students will take in the future and will provide an invaluable analytical framework for addressing a number of economically-relevant questions. Examples of such questions are the following: how do firms set wages for their employees? how do firms set prices for their products? should the government regulate monopolistic firms?

The first half of the course is devoted to the study of consumer and producer theory and we will illustrate the ideal circumstances under which the market solves the allocation problem and in which sense. The second half of the course is devoted to those problems which arise when those ideal circumstances fail to exist and we investigate whether some form of government intervention should be invoked to improve upon the market allocation. We will also briefly introduce some game-theoretical concepts which help model the interaction between economic agents.
Learning Outcomes

Successful completion of the course enables students to:

- Understand and formalize the optimizing behavior of market participants and how it generates market outcomes in different settings.
- Understand and formalize the notions of partial and general equilibrium and the assumptions leading to efficiency of markets.
- Understand and formalize the inefficiencies arising from non-competitive market structures.
- Examine several causes of market failures and explore the options available to policy makers to increase efficiency.
- Understand and formalize strategic interaction between economic agents.
- Understand and formalize the behavior of market participants in presence of uncertainty.

Main Textbooks

During the course we will use the following textbooks:


Most lectures will be based on Besanko and Braeutigam’s textbook, which can thus be considered as the main textbook for the course.

Mankiw’s textbook is relatively easy and can be especially useful for those students who have never taken an economic course before.

Students are advised to read the relevant chapters in the textbooks before attending the lectures. By doing so, the students will benefit most from what is taught in class.

Course Prerequisites

Knowledge of basic calculus is not a strict requirement, although it would be tremendously helpful. Because of the crucial role of marginal reasoning in microeconomics, during the course we will often make use of the tools of differential calculus.
Assessment

A student’s grade in this course will be a weighted average of his/her performance on the homework assignments and the exams. The weights are as follows:

- Homework assignments: 25%;
- Midterm exam: 25%;
- Final exam: 50%.

The number of homework assignments is yet to be determined. The assignments will be available on the course website. Students are encouraged to work in groups. Solutions to the homework assignments must be handed in to the teaching assistant (or uploaded to the course website) before the seminar and will be graded. During the seminars, the solutions will be presented.

There will be two exams: a midterm exam and a final exam. Both exams will be closed-books and students cannot bring any personal notes. The exams will consist of both theoretical questions and exercises.

Active class participation is strongly encouraged.

Course Outline

1. Introduction (BB1, BB2 - PR1, PR2)
2. Consumer Theory
   - Preference and Utility (BB3 - PR3)
   - Consumer Choice (BB4 - PR4)
   - Theory of Demand (BB5 - PR4)
3. Producer Theory
   - Production (BB 6-7, PR 6, 8)
   - Cost Minimization (BB 7-8, PR 7)
4. Market Structure and Government Intervention
   - Perfectly Competitive Markets (BB9, PR9)
   - Welfare and Government Intervention (BB10)
• Monopoly (BB11, PR10)
• Game Theory (BB14, PR13)
• Oligopoly (BB12-13, PR 12)

5. Advanced Topics

• Decisions under Uncertainty (BB15, PR5,17)
• General Equilibrium (BB16, PR 16)
• Externalities (BB17, PR16)
• Public Goods (BB17, PR16)

The syllabus will be regularly updated. You are strongly advised to check for its most recent version on the course website.