

**EC 101**  
**Principles of Microeconomics**  
**Boston University**  
SUMMER II 2008

**Instructor:** Vladimir Yankov, Department of Economics, Rm 408, Tel.: 617 353 4455, Email: yankov@bu.edu

**Time and Location:** M, Tu, Wed, Thu 10:00 am - 12:00 p.m., SMG 211

**Office Hours:** Monday 1pm-2:30pm  
Wednesday 1pm-2:30pm

**Textbook:**

**Required:** *Principles of Microeconomics*, Gregory Mankiw, Thomson South-Western (ISBN 0-324-42348-9), 4th edition.

**Recommended:** A classic textbook for this course is *Economics* by Paul Samuelson; Newest edition with William Nordhaus

A very nice introduction to Game theory *Thinking Strategically* by Avinash Dixit and Barry Nalebuff

**Coursewebsite:** Materials for the course will be uploaded on <http://courseinfo.bu.edu/courses/08sum2casec101sb2/>  
Please check updates regularly!

**Description of the course**

The purpose of the course is to introduce you to the basic concepts, problems and methodology of Economics. Economics tries to understand the complex interactions among households (consumers), firms (producers) and the government in their pursuit of optimally allocating their scarce resources and time among competing uses. These interactions among the principle *economic agents* lead to economic outcomes which can be summarized as how much and what varieties of goods and services are produced and at what cost, and who is going to consume them.

The answer to these questions depends on the type of *economic system* we have in mind. We will concentrate on the *market economy* (capitalist economic system) which is common to most of the contemporary countries. In the capitalist economic system, the basic economic questions are resolved through the decentralized interaction of consumers and producers which takes place in institutions called *markets*. The coordination of the individual participants in the markets and the allocation of resources and goods and services is achieved through the *price system* which summarizes all the relevant information necessary for making economic decisions. We will show that the market economy in its ideal form leads to the most *efficient outcomes*. We will also examine situations where markets fail to provide the most efficient outcome or are missing altogether and will discuss possible remedies.

The role of the government in a market economy is to enforce private property rights, alleviate coordination problems among consumers and producers and amend inefficiencies due to missing markets and provide public goods that the private sector would otherwise fail to provide. At this stage comes the role of Economics as a normative science. Whether and how should the government intervene in economic interactions is the question of *economic policy*. We will examine how government interventions affect market outcomes. Most of the time these interventions lead to distortions in prices and therefore in the sub-optimal allocation of resources. However, in certain situations economic policy could be welfare-improving and thus desirable.

In this course, we are going to learn the basic tools and principles of Economics. As in any other science, we are going to teach ourselves to work with abstract models of reality that should capture the most essential features we are trying to explain. The course is going to be analytic in nature rather than descriptive. It will teach you how to critically examine different economic problems and to be able to establish cause-and-effect relationships. This will be done through an extensive problem sets that will develop these skills. The problems will deal both with imaginary situations as well as with real case scenarios.

Although, the description may sound very abstract at this stage, you will get convinced that you already know much about Economics as you have always been part of the real-life economic system where you have faced the same economic decisions and have been effected by the economic outcomes we will try to explain. The challenge will be to be able to step out of the shoes of the economic agent we want to study and put the hat of the Economist. I hope this transition will be fun.

Economics as a social science is a relatively young science and bears its origins in the work *An Inquiry into the Nature and Causes of the Wealth of Nations* by the 18th century British philosopher Adam Smith. Nevertheless, ever since Economics had undergone rapid development. So much so, that its methodology is now applied in various other social sciences. The contribution of Economics to the progress of social sciences was recognized in the establishment in 1968 of the Nobel prize in Economics. You can find more information about the award and its recipients at:

[http://nobelprize.org/nobel\\_prizes/economics/](http://nobelprize.org/nobel_prizes/economics/)

You can also find description of other courses offered by the Economics department at:

<http://www.bu.edu/econ/undergraduate/ba/index.html>

**Grading:** There will be weekly assignments, a midterm exam and a final. They will count toward the grade as follows:

Assignments	20%
Class participation	5% (+)
Midterm	25%
Final	50%.

**Assignments and discussions:** A large part of the evaluation weight will be placed on the weekly assignments and discussion sections - a total of 25 % of the final grade. Assignments will consist of a set of multiple choice questions and a set of longer questions that require problem solving. Assigned problem sets are the most important element of the course. Their purpose is to test your understanding of the material in progress. They also prepare you for the mid-term exam and the final exam but more importantly they are designed to develop your skills as an Economist. The exams, themselves, will be entirely based on problems that you will encounter in the problem sets.

Since the summer course is a highly compressed version of the normal semester course, material will build up quickly and it is important that you work consistently throughout the semester. I will organize a weekly discussion every Monday. Monday's lecture will be split into two parts. The first hour will be a normal lecture and the last hour will be devoted to discussing the solutions to the weekly assignments. Class participation is encouraged and counts as 5% of the final grade. Each student must discuss at least once on the board the solution to a problem assigned during the week. Extra participation is encouraged and gives you extra bonus (+ 5%) but no more than 10%. If you fall behind the material at any point please make use of the office hours.

**Exams:**

Midterm	July 14
Final Exam	August 7

The mid-term exam and the final exam will be administered in class on the assigned date. The final exam will be cumulative i.e. will be based on the entire course material but will give a higher weight on the last half of the material. As already mentioned, the exams will be based on the problems sets. No make-up exams can be arranged except for special cases that should be discussed with me in advance.

## Course outline

Date	Lecture	Reading	HW
<b>Week 1 (30 June - 3 July)</b>			
30 June	Lecture 1: Introduction to Economics as a Social Science	Ch. 1, 2	
1 July	Lecture 2: Interdependence and the Gains from Trade	Ch. 3	
2 July	Lecture 3: Markets, Supply and Demand and Market Equilibrium	Ch. 4	
3 July	Lecture 4: Elasticity of Supply and Demand	Ch. 5	A1 due
<b>Week 2 (7 July - 10 July)</b>			
7 July	Lecture 5: Effects of Government Policies on Market Equilibrium	Ch. 6	
8 July	Lecture 6: Markets and Welfare	Ch. 7	
9 July	Lecture 7: Theory of Consumer Choice and Market Demand	Ch 21	
10 July	Lecture 8: The Cost of Production, Production Function and Market Supply	Ch. 13	A2 due
<b>Week 3 (14 July - 17 July)</b>			
14 July	<b>Midterm</b> exam based on lectures 1-8 (in class)		
15 July	Lecture 9: Market structure: Perfect competition	Ch 14	
16 July	Lecture 10: Market structure: Monopoly	Ch 15	
17 July	Lecture 11: Introduction to game theory	(lecture notes)	A3 due
<b>Week 4 (21 July - 24 July)</b>			
21 July	Lecture 12: Market structure: Oligopoly	Ch. 16	
22 July	Lecture 13: Market structure: Monopolistic competition	Ch.17	
23 July	Lecture 14: International trade	Ch. 9	
24 July	Lecture 15: Externalities	Ch. 10	A4 due
<b>Week 5 (28 July - 31 July)</b>			
28 July	Lecture 12: Public Goods and Common Resources	Ch. 11	
29 July	Lecture 13: The Cost of Taxation	Ch. 8	
30 July	Lecture 14: The Design of the Tax System	Ch. 12	
31 July	Lecture 15: The Markets for the Factors of Production	Ch. 18	A5 due
<b>Week 6 (4 August - 7 August)</b>			
4 August	Lecture 16: Earnings and Discrimination	Ch 19	
5 August	Lecture 17: Economics of Information	Ch 22 + extra	
6 August	Review		A6 due
7 August	<b>Final exam</b> (cumulative)		

**Code of conduct:** Please find time to familiarize yourselves with the CAS Code of Conduct as it will be enforced <http://www.bu.edu/cas/academics/programs/conductcode.html>