

## Economics 357(L01) (Intermediate Microeconomics II)

Instructor: J. Church  
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Lecture Location: AD 140  
Lecture Days/Time: MWF 9:00-9:50

Office: SS 442  
Office Hours: MWF 10:00-11:00

(Fall 2016)

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### Textbook(s):

#### *Required*

Varian, H. 2014. *Intermediate Microeconomics* 9th edition. New York: Norton.

#### *Optional*

Roberts, R. 2001. *The Invisible Heart*. Cambridge: MIT Press.

Spufford, F. 2010. *Red Plenty*. London: Faber and Faber.

Required and recommended readings will be drawn from the textbook, from material on reserve in the MacKimmie Library and from the periodical collection in the MacKimmie Library.

### Book(s) on Reserve:

Dolfsma, W. 2013. *Government Failure*. Northampton, Mass.: Edward Elgar.

Harford, T. *The Undercover Economist*. Oxford: Oxford University Press.

Katz, M., and H. Rosen. 1998. *Microeconomics*. 3rd. Edition. Burr Ridge, Illinois: IRWIN.

Landsburg, S. 1993. *The Armchair Economist*. Toronto: Maxwell MacMillan.

Levinson, M. 2006. *The Box*. Princeton: Princeton University Press.

Lomborg, B. 2001. *The Skeptical environmentalist*. Cambridge: Cambridge University Press.

Lomborg, B., ed. 2004. *Global Crises, Global Solutions*. Cambridge: Cambridge University Press.

Lomborg, B. 2007. *Cool It!* New York: A. Knopf.

Mankiw, G. et al. 2014. *Principles of Microeconomics*. 6th ed. Toronto: Thomson Nelson.

Newmark, C. 2009. *Readings in Applied Microeconomics: The Power of the Market*. New York: Routledge.

Nordhaus, W. 2013. *The Climate Casino*. New Haven: Yale University Press.

Posner, R. 2009. *A Failure of Capitalism*. Cambridge, Mass.: Harvard University Press.

Rivoli, P. 2009. *The Travels of a T-Shirt in the Global Economy*. Hoboken: John Wiley.

Sabin, P. 2013. *The Bet*. New Haven: Yale University Press.

Schelling, T. 1984. *Choice and Consequence*. Cambridge: Harvard University Press.

**Desire2Learn:**

This course will make use of the Desire2Learn (D2L) platform. Students who are registered in the course can log on at <http://d2l.ucalgary.ca> through their student centre. Please note that D2L features a class e-mail list that may be used to distribute course-related information. These e-mails go to your University of Calgary e-mail addresses only.

**Course Description:**

This course is the first of a pair of courses designed to acquaint students with microeconomic theory. Microeconomics is concerned with a systematic understanding of the choices of individuals, firms, and organizations. It seeks to address the social consequences of the behaviour of economic agents. This course will extend and build on the theory of the consumer, the theory of the firm, and the theory of perfect competition introduced in Economics 301. The theory of general competitive equilibrium will be studied intensively. Particular attention will be devoted to its efficiency and welfare properties. Thereafter, instances of market failure will be addressed: those covered will be imperfect competition, externalities, public goods, and informational asymmetries.

Students are reminded that this course has a calculus prerequisite and calculus compatible notation will be used. This course makes extensive use of high school level algebra. Students do not need to have an intimate, or any, knowledge of calculus to complete this course. Please note, however, that calculus compatible notation will be used. This course makes extensive use of high school level algebra.

Economic theory provides the structure, or framework, for economic inquiry. For this reason Econ 301 and 357 are the two most important courses majors in economics complete at the University of Calgary. These courses provide the most important tools of the three found in a student's economic toolbox (the other two are econometrics and knowledge of both current economies and economic history).

Economic theory has four elements that students are expected to master:

- (i) Students will become familiar with the foundation of economic reasoning. This involves a fundamental assumption—that individuals make choices based on their perception of their self-interest. The consequence of this assumption is that individual choices and actions depend on incentives. In turn, incentives depend on the interaction of preferences and constraints on time, income, technology, and ability. This framework explains how choices can be understood in terms of their incremental or marginal costs and benefits and how changing an individual's perception of either incremental costs or benefits will change behaviour.
- (ii) Students will master equilibrium analysis which involves aggregating over the choices of individuals and insuring that the choices of individuals are consistent—that what individuals plan to do they are in fact able to do. Equilibrium analysis underlies how economists explain resource allocation in the economy.
- (iii) A key part of equilibrium analysis is comparative statics: asking how the equilibrium will change when conditions change.
- (iv) Students will understand the strengths, limitations, and value judgments that underlie the notion of efficiency. Efficiency is the yardstick by which economists measure the social desirability of resource allocation.

**Course Outline:**

- 1) Introduction
  - a) Objective and Overview
  - b) Methodology
  - c) Pareto Optimality and Gains from Trade
- 2) Topics in the Theory of the Consumer
  - a) Intertemporal Choice
  - b) Asset Markets
  - c) Uncertainty
  - d) Risky Assets
- 3) Imperfect Competition and Game Theory
  - a) Prisoner's Dilemma and Nash
  - b) Cournot, Bertrand, and Collusion
- 4) General Equilibrium and the Fundamental Theorems of Welfare Economics
  - a) Exchange Economy
  - b) Production and General Equilibrium
- 5) Social Welfare and Economic Equity
  - a) Social Welfare Functions
  - b) Arrow's Impossibility Theorem
- 6) Market Failure I: Market Power
  - a) Monopoly in General Equilibrium
- 7) Market Failure II: Externalities
  - a) Tragedy of the Commons
  - b) Pigouvian Taxes and Subsidies
  - c) Property Rights
  - d) The Coase Theorem
- 8) Market Failure III: Public Goods
  - a) Optimality Condition
  - b) Private Financing and the Free Rider Problem
- 9) Market Failure IV: Asymmetric Information
  - a) Adverse Selection
  - b) Moral Hazard
  - c) Principals and Agents
- 10) Public Choice: Government Failure

**Discussion Section:**

Students are expected to attend the weekly discussion section. During the discussion section the TA will discuss pre-assigned questions/material relevant to the course. The discussion section is Wednesday from 8:00-8:50 in ENE 239.

**Grade Determination and Final Examination Details:**

MIDTERM EXAM	20%
FINAL EXAMINATION	50%
ASSIGNMENTS	<u>30%</u>
	100%

As per the Writing Across the Curriculum Statement in the Calendar, writing and grading thereof will be a factor in the evaluation of student work.

Any student work which remains undistributed after the last day of classes will be available to students through the instructor's office during his office hours.

**Students must receive a passing grade on the final exam to pass the course.**

The final examination will be comprehensive, scheduled by the Registrar, held in a classroom, and last 2 hours. The final examination will be comprehensive. If a student cannot write their final exam on the date assigned by the Registrar's Office, they need to apply for a deferred exam [www.ucalgary.ca/registrar/exams/deferred\\_final](http://www.ucalgary.ca/registrar/exams/deferred_final). Under no circumstance will this be accommodated by the Department.

Tests and exams will not involve multiple choice questions. Non-programmable calculators WILL be allowed during the writing of tests or final examinations.

The exact date for the in-class midterm will be announced at least one week in advance.

Students unable to write exams because of documented illness, family emergency, religious observance, or a university-sanctioned event will have the weight shifted to the final examination; otherwise a grade of zero will be assigned.

Students will be given at least one week to complete each assignment. Late assignments will never be accepted. In cases of documented illness, family emergency, religious observance, or a university-sanctioned event, extra weight will be given to the final examination.

The official grading system will be used. See <http://www.ucalgary.ca/pubs/calendar/current/f-2.html>. A letter grade will be awarded based on the numeric average of all assignments.

**Reappraisal of Grades:**

**For reappraisal of graded term work, see Calendar I.2**  
<http://www.ucalgary.ca/pubs/calendar/current/i-2.html>

**For reappraisal of final grade, see Calendar I.3**  
<http://www.ucalgary.ca/pubs/calendar/current/i-3.html>

A student who feels that a piece of graded term work (e.g., term paper, essay, test) has been unfairly graded, may have the work re-graded as follows. The student shall discuss the work with the instructor

within 15 days of being notified about the mark or of the item's return to the class; no reappraisal of term work is permitted after the 15 days. If not satisfied, the student shall immediately take the matter to the Head of the Department of Economics, who will arrange for a reassessment of the work within the next 15 days. The reappraisal of term work may cause the grade to be raised, lowered, or to remain the same. If the student is not satisfied with the decision and wishes to appeal, the student shall address a letter of appeal to the Dean of the Faculty of Arts within 15 days of the unfavourable decision. In the letter, the student must clearly and fully state the decision being appealed, the grounds for appeal, and the remedies being sought, along with any special circumstances that warrant an appeal of the reappraisal. The student should include as much written documentation as possible.

**Plagiarism and Other Academic Misconduct:**

Intellectual honesty is the cornerstone of the development and acquisition of knowledge and requires that the contribution of others be acknowledged. Consequently, plagiarism or cheating on any assignment is regarded as an extremely serious academic offense. Plagiarism involves submitting or presenting work in a course as if it were the student's own work done expressly for that particular course when, in fact, it is not. Students should examine sections of the University Calendar that present a Statement of Intellectual Honesty and definitions and penalties associated with Plagiarism/Cheating/Other Academic Misconduct, <http://www.ucalgary.ca/pubs/calendar/current/k-5.html>.

**Academic Accommodation:**

Students seeking an accommodation based on disability or medical concerns should contact Student Accessibility Services; SAS will process the request and issue letters of accommodation to instructors. For additional information on support services and accommodations for students with disabilities Visit [www.ucalgary.ca/access/](http://www.ucalgary.ca/access/).

Students who require an accommodation in relation to their coursework based on a protected ground other than disability should communicate this need in writing to their Instructor. The full policy on Student Accommodations is available at <http://www.ucalgary.ca/policies/files/policies/student-accommodation-policy.pdf>.

**Notes:***Important Dates*

Please check: <http://www.ucalgary.ca/pubs/calendar/current/academic-schedule.html>

*Student Organizations*

Faculty of Arts Students' Association (F.A.S.A.):

Economics Department Representative

Office: SS 803, E-mail: [econrep@fasaucalgary.ca](mailto:econrep@fasaucalgary.ca) Web: [www.fasaucalgary.ca](http://www.fasaucalgary.ca)

Society of Undergraduates in Economics

[www.ucalgarysue.com](http://www.ucalgarysue.com)

Society of Undergraduates in Economics is a student run organization whose main purpose is to assist undergraduate economics students succeed both academically and socially at the University of Calgary. Services include access to the exam bank, career partnerships with the Career Centre through hosting

industry nights and information sessions, recognizing achievements in teaching, and organizing social events for members.

*Faculty of Arts Program Advising and Student Information Resources*

- Have a question, but not sure where to start? The Arts Students' Centre is your information resource for everything in Arts! Drop in at SS102, call them at 403-220-3580 or email them at [artsads@ucalgary.ca](mailto:artsads@ucalgary.ca). You can also visit the Faculty of Arts website at <http://arts.ucalgary.ca/undergraduate> which has detailed information on common academic concerns, including program planning and advice.
- For registration (add/drop/swap), paying fees and assistance with your Student Centre, contact Enrolment Services at 403-210-ROCK [7625] or visit them in the MacKimmie Library Block.
- Online writing resources are available at <http://www.ucalgary.ca/ssc/resources/writing-support>

**Evacuation Assembly Point:**

In case of an emergency evacuation during class, students must gather at the designated assembly point. The assembly point for this classroom is the Social Science Building.

**Safewalk:**

The safewalk program provides volunteers to walk students safely to their destination anywhere on campus. This service is free and available 24 hrs/day, 365 days a year. **Call 403-220-5333.**