ECON01GE1: INTRODUCTORY MICROECONOMICS

Credit - 06 [Theory: 05; Tutorial: 01]

Contact hours per week: 06

Course Description
This course is designed to expose the students to the basic principles of microeconomic theory. The emphasis will be on thinking like an economist and the course will illustrate how microeconomic concepts can be applied to analyze real-life situations.
1. Exploring the subject matter of Economics
Why study economics? Scope and method of microeconomics - reading and working with graphs. The economic problem: Scarcity and choice - production possibility curve – trade off, opportunity cost and decision making; incentives and information – prices (absolute and relative prices) property rights and profits. Decision takers- households, firms and central authorities; choice by command and choice by market. Alternatives to the price system – Rationing by Queues, Rationing by Lotteries, Rationing by Coupons. Economic Systems
2. Supply and Demand: How Markets Work, Markets and Welfare
a. Elementary theory of demand – determinants of household demand and market demand, and shifts in the demand curves b. Elementary theory of supply - factors influencing supply, derivation of the supply curve, and shifts in the supply curve c. Determination of equilibrium price in a competitive market - Existence, Uniqueness and Stability of equilibrium (the Walrasian approach and Marshallian approach). d. Prices and resource allocation e. Elasticity and its application f. Government Interventions and their Effects on market equilibrium – price ceiling, price floor and commodity taxation. g. Consumer surplus, producer surplus and the efficiency of the markets.
3. The Households
a. The consumption decision – description of preferences (representing preferences with indifference curves) - properties of indifference curves; budget constraint; optimum choice. b. Comparative statics: income and price changes – derivation of price consumption curve, income consumption curve and Engel's curve; demand for all other goods and price changes. c. Substitution and income effects and law of demand – concepts of Marshallian and compensated demand curves d. Labour supply and savings decision - choice between leisure and consumption.
4. The Firm and Perfect Market Structure
a. Defining a firm- firm's legal forms; profit maximization hypothesis b. Behaviour of profit maximizing firms and the production process. c. Short run costs and output decisions. d. Costs and output in the long run
5. Imperfect Market Structure
a. Monopoly and anti-trust policy; government policies towards competition. b. Concepts of different forms of imperfect competition
6. Input Markets
a. Labour and land markets - basic concepts of derived demand, productivity of an input, marginal productivity of labour and marginal revenue product. b. Input demand curves; shifts in input demand curves. c. Competitive labour markets. d. Labour markets and public policy.

Readings
1. Joseph E. Stiglitz and Carl E. Walsh, Economics, W.W. Norton & Company, Inc., New York, International Student Edition, 4th Edition, 2007. 2. N. Gregory Mankiw, Economics: Principles and Applications, India edition by South Western, a part of Cengage Learning, Cengage Learning India Private Limited, 4th edition, 2007. 3. Karl E. Case and Ray C. Fair, Principles of Economics, Pearson Education Inc., 8th Edition, 2007.