



Korea University International Summer Campus (KU ISC) 2018

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June 26, 2018 ~ August 2, 2018

IWC202A - Introduction to Microeconomics

I . Instructor

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II. Textbook

Required Textbook : The main book for the course will be *Experiments with Economic Principles* (2nd Edition) by Theodore C. Bergstrom and John H. Miller.

ISBN-13: 978-0072295184

This textbook is a hands-on manual designed to teach economic principles through experiments. You do NOT need to buy the book. I will provide (in paper or electronically) the chapters of the book as well as all the material necessary for the experiments and the homework.



Recommended Additional Readings : We will use examples and applications from other introductory books to microeconomics. There are many of them (most well-known economists have written his or her book) and they are all very similar. *Microeconomics* by Paul Krugman and Robin Wells is a good additional reading. *The Economy* by The CORE Project (www.core-econ.org) offers a good free e-book with many interactive activities.

III. Course Description and Objectives

OBJECTIVES AND STRUCTURE

On this course you will learn the economic principles, first participating in experiments and then studying the related economic theory and its applications. You and your classmates will be the participants in the markets as well as the scientific observers who try to understand the outcomes. By participating in the experiments you will be able to observe the economic principles in action. After each experiment we will examine the data and discuss the results. Then we will study the economic theories designed to explain the results discovered in the experiments and its

applications. This process will make theories come to life and, once they look real, will enable you to appreciate the ability of economic theory to explain the economic world in which we live.

The course is designed around two types of classes: experiments and theory. Each topic starts with an experiment. You will need to read the instructions and do a couple of warm-up exercises before the experiment. This will ensure the smooth running of the experiment and will also enhance your performance. At the beginning of the experiment we will describe the rules and you will be assigned a role and ask to participate in a market. You are expected to participate in the in-class discussion following the experiment. The data collected from the experiment will be used to work on regular assignments. Finally, the theory class will generalize the findings discovered during the experiment and will discuss the assignments and applications.

EXPERIMENTS

The economic experiments will help you relate and understand the behavior of economic agents, as you will be acting as one of them. We will use classEX (classex.de), a free platform for interactive experiments in the classroom. To participate in the experiment, you will need a smartphone or a tablet with wi-fi connection.

GRADING POLICY

Grading will be based on: participation in the experiments, regular assignments and in-class questions and quizzes, a midterm, and a final exam. The mid-term and the final exams account for 80% of the grade. The final will be comprehensive. The exams will consist of multiple-choice and/or short-answer questions.

OUTLINE

Introduction to Economics.

Section I: Competitive Markets

1. Supply and Demand.
The supply curve. The demand curve. The competitive equilibrium. Who trades in equilibrium? Reserve price, profits and consumer surplus. Efficiency.
2. Shifts in Supply and Demand.
Variable costs and fixed costs. Comparative statics: What happens to the price and the quantity in equilibrium? What about equilibrium profits?
3. Slope and Elasticity.
The slope. Price elasticity. Relationship between the slope and elasticity. Properties of price elasticity. Comparative statics: elasticity and total revenue.

Section II: Market Interventions and Economic Policy and the Firm

4. Taxes and Welfare Economics.
A sales tax on sellers vs. taxes on buyers. Collecting vs. bearing the tax. Taxes and welfare. Efficiency and justice.
5. The Labor Market and the Minimum Wage.
The demand for labor. Decreasing returns. Production factors. Marginal product and average product. Labor supply. Competitive equilibrium in the labor market. The effects of a minimum wage.
6. Entry and Exit: Short vs. Long Run.
The cost function. Fixed and variable costs. Average cost and marginal cost. The decision to produce: Short run equilibrium with excess capacity and losses and with limited capacity and profits. The decision to enter a market: Long run equilibrium.

Section III: Consumer Behavior

7. Preferences and the Budget Constraint.
8. Section IV: Market Imperfections

9. Externalities.
Competitive markets and externalities. Taxes on pollution. Transferable permits. Positive externalities and subsidies.
10. Monopolies and Cartels.
Monopoly behavior. Marginal revenue and marginal cost. Comparison of monopoly and competitive markets. Cartels.
11. Network Externalities.
What are network externalities? Network externalities and the demand curve. The equilibrium with network externalities. Stable equilibria, unstable equilibria and the critical mass.

IV. Grading

Participation, Assignments and Quizzes	:	30%
Midterm Exam	:	30%
Final Exam	:	40%

V. Class Outline

Date	Topic
June 26 (Tue)	Orientation Day
June 27 (Wed)	Introduction
June 28 (Thu)	Experiments: The apple market and the fish market
June 29 (Fri)	Supply and demand. Shifts in the supply and the demand
July 2 (Mon)	Experiment: A sales tax
July 3 (Tue)	Slope and Elasticity
July 4 (Wed)	Taxes
July 5 (Thu)	Welfare Economics
July 9 (Mon)	Experiment: A minimum wage
July 10 (Tue)	Labor Market
July 11 (Wed)	Experiment: The restaurant business
July 12 (Thu)	Entry-Exit: Short and long run
July 16 (Mon)	Review for the mid-term exam
July 17 (Tue)	Mid-term exam
July 18 (Wed)	Consumer behavior
July 19 (Thu)	Experiment: A polluting economy
July 23 (Mon)	Externalities
July 24 (Tue)	Experiment: Monopoly and oligopoly
July 25 (Wed)	Monopoly
July 26 (Thu)	Experiment: A network of holographic chats
July 30 (Mon)	Network externalities
July 31 (Tue)	Review. Q&A.
Aug 1 (Wed)	Final Exam
Aug 2 (Thu)	Personal Tutoring