

Economics 201 (L01) Principles of Microeconomics

Instructor: Marian Miles
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Lecture Location: D2L Documents
Lecture Days/Time: None

Office: SS 350
Office Hours: TR 9:30 – 11:30 am in D2L using Zoom (Winter 2020)

Course Description:

Economics is the study of how we respond to scarcity, in particular the alternatives and implications of how different institutions manage scarcity. Scarcity means that individuals and societies must make choices. The choice of institutions determines the allocation of scarce resources—what and how much gets produced, how is it produced, and who gets what is produced—and our standard of living. Econ 201 develops principles on how individuals make choices and how those choices are influenced by institutions. There is a particular focus on understanding the use of markets to allocate resources. The objective is to understand how markets work, when they work well, when they do not work well, and the role for governments and non-market allocation. Fundamentally the key questions for any student in economics are:

- Why was life for most traditionally, and many currently, brutal, nasty, and (fortunately) short, but for others (in increasing numbers) it is not?
- Why are some societies wealthy and others are so unproductive that their members barely subsist?

Course Objectives:

Students who complete Econ 201 successfully will be able to understand introductory microeconomic theory, solve basic microeconomic problems, and use these techniques to think about policy questions affecting the economy. This will include being able to answer questions regarding how markets work, when markets work and do not work well, and the role of government policy in allocating resources. This will provide students with a solid foundation in economic thinking that will last into their professional careers.

Course Learning Outcomes:

I. The Implications of Scarcity: Opportunity Cost

- Opportunity cost: every choice has a cost, the foregone alternative. Opportunity cost is necessarily implied by scarcity.
- Individuals make decisions.
- Decisions are made at the margin.
- Individuals respond to incentives: by changing the marginal cost and benefit of an activity, the level of the activity will change.

II. Voluntary Trade and Efficiency

- Voluntary trade makes both parties better off.
- Voluntary trade, because it makes both parties better off, is socially desirable, unless
 - it harms a third party (not Pareto Improvement) or
 - the harm to third parties exceeds the benefit of the voluntary trade (not a Potential Pareto Improvement).

III. Institutional Framework for Market

- Markets operate within an institutional framework. Those institutions can be provided privately, but some are more likely best provided by collective action, i.e., voluntarily by groups of individuals—perhaps organized by a government.
 - The institutional framework includes private property rights, contract law, means of exchange, and the judicial system.
 - Governments define the extent and scope of private property rights: private property rights provide the incentive for investment.
 - Investments in capital are often sunk, this creates the risk that changes in government policy will change the returns to investors without, in the short run, a reduction in the incentive to provide goods and services even though the return on and off capital has been reduced. In the long run, however, investors will respond by requiring higher risk premiums and will underinvest.

IV. Competitive Markets

- A competitive trading process results in outcomes that are often socially desirable. Markets are often the best way to organize economic activity in practice relative to actual alternatives. A decentralized process, as if by an invisible hand, channels private interests to achieve the social interest.
- Prices in competitive markets signal value.
- Prices are the means by which decentralized decisions are coordinated. Without the ability of markets to aggregate preferences and costs in the formation of prices, extensive coordination of economic activity is difficult, indeed likely not possible: the result does not maximize the value of society's endowment of resources
- Markets promote both the efficient allocation of resources at a point in time, but also promote dynamic efficiency.
 - Entrepreneurship is fundamentally about creating a new higher valued use and reallocating to that use resources from a lower valued use.
- Prices allocate resources in market economies: prices formed in markets determine what gets produced, how it is produced, and to whom it is distributed.

V. The Role of Alternative Institutions: Government Intervention and Market Failure

- Non-market alternatives to allocating resources typically put restrictions on voluntary trade. They therefore mostly reduce the value of trade, but they can increase the gains from trade when the private benefits and the social benefits of trade are not the same, that is when there are third party effects.
- Markets may not be the optimal governance structure when there are externalities, public goods, information is asymmetric, or there is market power.
- Government intervention involves the use of legal coercive force. In theory a perfect government can improve on the allocation of resources when there are externalities, public goods, information is asymmetric, or there is market power.

VI. Income Distribution and Social Choice Theory

- The wealth of a nation is a function of the value of goods and services it produces.
- In competitive markets, incomes depend on the productivity of a factor of production and the value of its output.
- Wage differentials in competitive markets reflect differences in productivity.
- Individuals have preferences: society does not. Governments can use their legal power on coercion to tax and redistribute income. The determination of the distribution of income is determined by political institutions.
- Government activities are financed by taxes: taxes usually impose more costs than the revenue raised. This gives rise to a trade-off between efficiency and redistribution.

VII. Public Choice

- The government has a legal monopoly on the power of coercion. This is a very valuable resource and like most valuable resources can, and will be, traded in a market. Unfortunately, the result is that the power is used to create and transfer rents to special interest groups favoured by the political process. The result is often inefficiency, leading to lower productivity and incomes.
- In practice, government intervention is not perfect because of asymmetric information and incentive problems. Politicians, regulators, and government employees make decisions to favour their self interest.
- The choice is often between imperfect markets and imperfect government intervention.
- An important consideration in the design of political and regulatory institutions is constraints on the ability and extent of governments to exercise their coercive power to create and redistribute income.

Course Outline:

Topic	Mankiw Chapter(s)
The Economist's View of the World and the Economic Way of Thinking	1 and 2
Comparative Advantage and Trade	3
How Markets Work: Supply and Demand	4-6
Markets and Welfare	7
Applications: Taxation and Trade	8-9
Externalities	10
Public Goods	11
Competitive Markets and Costs	13 (or Reading) and 14
Market Power	15 and 17
Distribution of Income and Factor Markets	18 and 19
Social Choice	20 and 22.2
Asymmetric Information	22.1
Public Choice	Reading

Prerequisites/corequisites:

None

Required Textbook(s):

N. Gregory Mankiw, Ronald D. Kneebone and Kenneth J. McKenzie, *Principles of Microeconomics*, 8th Canadian Edition with Mindtap/Aplia, Nelson.

OR Digital only Alternative:

Mindtap/Aplia: Mindtap is a learning tool that allows the student to complete practice and assignment questions that correspond with each chapter of the book. The main benefit of Mindtap is that the questions are “tailor made” for the course and that feedback is given after each question. Graded assignment questions will be completed using Mindtap. Aplia is a free system that will be available in some labs on campus, with an access code, to do assignments only. The code for the free, on campus only version of Aplia, can be obtained during the first two weeks in tutorials. More information concerning student registration with the access codes will be provided in the first week of lectures.

Books on Reserve: N. Gregory Mankiw, Ronald D. Kneebone and Kenneth J. McKenzie, *Principles of Microeconomics*, 8th Canadian Edition.

Desire2Learn:

This course will make use of the Desire2Learn (D2L) platform to post course notes, examples, slides, and links to video material. 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.

Tutorials:

Students are expected to attempt the weekly tutorial material posted in D2L. The solutions will be posted and the TA will hold question and answer tutorials using Zoom in D2L at your regular scheduled tutorial times.

Grade Determination and Final Examination Details:

MIDTERM EXAM	30%
FINAL EXAMINATION	45%
5 ASSIGNMENTS (5% each)	<u>25%</u>
	100%

Grades will be determined based on five assignments, a midterm exam, and the final exam. Assignments will include multiple parts, done in Mindtap or Aplia. The questions will be similar to those in the tutorials and on the exams. The in-class midterm will be held on Tuesday, **March 3**. This exam will involve multiple choice questions.

Mindtap/Aplia: Mindtap is a learning tool that allows the student to complete practice and assignment questions that correspond with each chapter of the book. The main benefit of Mindtap is that the questions are “tailor made” for the course and that feedback is given after each question. Graded assignment questions will be completed using Mindtap. Aplia is a free system that will be available in some labs on campus, with an access code, to do assignments only. The code for the free, on campus only version of Aplia, can be obtained during the first two weeks in tutorials. More information concerning student registration with the access codes will be provided in the first week of lectures.

The official grading system will be used. See <http://www.ucalgary.ca/pubs/calendar/current/f-1-1.html>.

A passing grade on any particular component of the course is not required for a student to pass the course as a whole.

If a student's letter grade on the final exam exceeds their midterm(s) letter grade, the weight of the midterm(s) is (are) transferred to the final exam. The student must have written the midterm(s) or provided supporting documentation for the absence(s) such as a medical note or statutory declaration.

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. [See https://www.ucalgary.ca/pubs/calendar/current/e-2.html](https://www.ucalgary.ca/pubs/calendar/current/e-2.html).

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

The final exam will be a multiple choice exam completed online in D2L. You will have four hours to complete the exam, at a time of your choosing, within the 24 hour period that begins 24 hours before the end date of the Registrar's scheduled final exam for this course. The exam is designed and intended to be completed in two hours. The exam will be CLOSED book.

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 <https://www.ucalgary.ca/pubs/calendar/current/q-6.html>. Under no circumstance will this be accommodated by the Department.

Tests and exams WILL involve multiple choice questions.

Programmable calculators, cellphones, textbooks, course notes, and other electronic devices will not be allowed during the writing of tests or final examinations. Students are reminded that simply being able to access their cellphone during an exam is academic misconduct.

THERE WILL BE NO MAKEUP OR DEFERRED QUIZZES/TESTS/EXAMS under any circumstances, nor may the quizzes/tests/exams be written early. Students unable to write the quizzes/tests/exams because of documented illness, family emergency, religious observance, or university-sanctioned event will have the weight shifted to the final examination; otherwise a grade of zero will be assigned.

Reappraisal of Grades and Intellectual Honesty:

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>

Statement of Intellectual Honesty, see Calendar K.4

<http://www.ucalgary.ca/pubs/calendar/current/k-4.html>

Plagiarism and Other Academic Misconduct, see Calendar K.5

<http://www.ucalgary.ca/pubs/calendar/current/k-5.html>

Academic Accommodations:

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. 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>.

Freedom of Information and Protection of Privacy (FOIP) Act:

Personal information is collected in accordance with FOIP. Assignments can only be returned to the student and will be accessible only to authorized faculty and staff. For more information, see <http://www.ucalgary.ca/legalservices/files/legalservices/faq-students.pdf> and http://www.ucalgary.ca/legalservices/files/legalservices/faq-faculty_0.pdf.

Internet and Electronic Communication Device information:

The use of cell phones for any purpose in class is prohibited. Computers and tablets may be used for note taking only unless otherwise authorized by the instructor.

Copyright Legislation:

See the University of Calgary policy on Acceptable Use of Material Protected by Copyright at www.ucalgary.ca/policies/files/policies/acceptable-use-of-material-protected-by-copyright.pdf. Students who use material protected by copyright in violation of this policy may be disciplined under the Non-Academic Misconduct Policy.

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 and Web: www.fasaucalgary.ca.

Society of Undergraduates in Economics:

<https://www.ucalgarysue.com/>.

Society of Undergraduates in Economics is a student run organization whose main purpose is to assist undergraduate economics students to succeed both academically and socially at the University of Calgary. Services include access to the exam bank, career events such as Industry Night and information sessions, mentorship programs, and social events for members. They invite you to join by contacting SUE at societyofundergradsineconomics@gmail.com.

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. 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.

Student Support and Resources:

- See <https://www.ucalgary.ca/registrar/registration/course-outlines> for information on campus mental health resources, the Student Ombuds' Office, Student Success Centre, Safewalk, and Emergency Evacuation and Assembly.
- Online writing resources are available at <https://ucalgary.ca/student-services/student-success/writing-support>.

Notes:

1. Students are responsible for all assigned material, e.g., supplementary material posted on D2L, regardless of whether or not the material was covered in a lecture.
2. I check my emails twice per day, once in the morning and once in the afternoon/evening (Excluding weekends). Since I teach hundreds of students, please send me an email only if it is absolutely necessary and/or in the case of an emergency. Please email the TA, for your tutorial section, with your questions on the course material.
3. Please note that the following types of emails to myself, or the TA, will receive no response: emails not addressed to anyone in particular; emails where the recipient's name is not spelled correctly; anonymous emails; emails which do not specify the course and section in which you are registered; and, emails involving questions that are specifically addressed on the course outline.

MAM **Revised:** 2020-03-17