

# University of Vienna

## 2022W 040184-1 Microeconomics

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### 1 Overview

This is an introductory course in microeconomics. In the first part of the course, students are introduced to the benchmark of perfectly competitive markets. In the second part, we explore ways in which actual markets differ from this benchmark such as market power, externalities, public goods, and asymmetric information problems. We conclude by discussing the scope and role of government intervention in markets. This course serves three main purposes:

1. to introduce students to basic microeconomic principles;
2. to help students understand the business world through the lens of economic models;
3. to develop students' skills in critical thinking and comprehension.

Microeconomics is an analytical subject, and an ability to follow logical arguments – including some that are complex – is required to follow the material. The only way to absorb analytical material is to work through problems. I will assign weekly problem sets; to keep up with the course it is essential that you complete them.

The following topics will be covered:

1. Demand
2. Supply
3. Competitive market equilibrium and equilibrium welfare
4. Market power and oligopolies
5. Market power and monopolies
6. Externalities
7. Public goods and redistribution
8. Information frictions between consumers and firms
9. Information frictions within organisations

## 2 Textbooks

I know of no book that fits the course perfectly. Although the level of some parts is a bit higher than the level of the course, I will refer you a lot to the following book: *Microeconomics, 9. Edition by Robert Pyndick and Daniel Rubinfeld*.

Another book that covers some, but not all of the topics in the course, at approximately the same level, is *Microeconomics, 3. Edition by Austan Goolsbee, Steven Levitt, and Chad Syverson*. Both books are available in the library, so there is no need to purchase them.

## 3 Course Components

The course has three main components:

### 3.1 Lectures

I will use fairly detailed slides, which I will post before each class. Please see the tentative schedule (Section 4) for details.

### 3.2 Tutorials

The tutorials are an essential part of the class. The TA will guide you in solving some problems related to the material in the previous class. They will not give you a solution, but will rather induce you to create a solution. The problems for each tutorial meeting will be posted on Moodle shortly after the class. You do not need to look at them before the tutorial, but you should be prepared to participate actively in the tutorial. I will post full solutions to the problems shortly after the tutorial.

### 3.3 Problem Sets

The problem sets are another essential part of the class. As for any analytical subject, the only way to learn the material in the course is to solve a lot of problems. I will assign a problem set each week that will be posted on Moodle shortly after each class. Your answers to these problems will contribute directly to your grade (i.e., they will be marked), and they will definitely contribute indirectly as well: you will not be able to do well in the course unless you do the problems.

## 4 Tentative Schedule

Section 040184-1 – English:

- Lecture: Mondays 16:45 – 18:15 and Thursdays 18:30 – 20:00.
- Tutorial: Fridays 16.45 – 18.15
- **Week 1:**  
Introduction to microeconomics. Methods and goals of microeconomics, what is a perfectly competitive market? Why is it a useful but unrealistic benchmark?

- **Week 2:**  
Demand. How can we model the choices made by consumers with limited budgets? What happens to these choices when prices change? What happens to demand when income or preferences change? How can we estimate demand for a good?
- **Week 3:**  
Supply. What is a producer? Production technology and costs, profit and profit maximisation. When should a firm pause production in the short run? Effect of a change in cost or technology on supply.
- **Week 4:**  
Competitive market equilibrium and equilibrium welfare. How are quantities and prices determined in equilibrium? How are the gains from competitive market exchanges shared between consumers and producers? Why would we like markets to be perfectly competitive? Why can government intervention be justified when markets are not perfectly competitive?
- **Week 5:**  
Market power and oligopolies. When do we say that firms have market power? Basics of game theory: why do we need a different approach to model a market with only a few firms? How are equilibrium price and quantities affected when only a few firms compete with each other?
- **Week 6:**  
Market power and monopolies (1). What features of a market can lead it to be dominated by one single firm? How are equilibrium prices and quantities affected when only one firm dominates the market? Price discrimination: how should a monopoly set its prices when facing consumers with different preferences?
- **Week 7:**  
Midterm exam.
- **Week 8:**  
Market power and monopolies (2). How is the distribution of welfare affected when a single firm dominates the market? How can monopolists strategically defend their dominant position? What regulations can governments implement to improve welfare when firms have market power?
- **Week 9:**  
Externalities. How does welfare change in a competitive market if one person's consumption has some negative impact on others (e.g., creates pollution)? How does it change if one person's consumption has a positive impact on others (e.g., being vaccinated)? What can governments do to improve welfare when markets have these characteristics?
- **Week 10:**  
Public goods and redistribution. Why do competitive markets sometimes underprovide valuable goods (e.g., education or healthcare)? How can governments provide public goods? Voting: how can consumers agree on how much of these goods to provide?

- **Weeks 11–12:**  
Christmas break.
- **Week 13:**  
Information frictions between consumers and firms (1). Consumer search: how can the lack of information to consumers lead to market power? Market solutions: price comparison websites. Governments' solutions: consumer protection laws.
- **Week 14:**  
Information frictions between consumers and firms (2). Adverse selection: how can the lack of information to consumers lead to a market breakdown? Market solutions to adverse selection: online reviews, certification, warranties. Government solutions to adverse selection: advertising regulations, return of defective goods, compulsory insurance.
- **Week 15:**  
Information frictions within organisations. Agency problems in the firm: do firm managers always maximise profits? Agency problems and moral hazard, market solutions to moral hazard (e.g., performance-based compensation), and government solutions to moral hazard (e.g., laws against white collar crime).
- **Week 16:**  
Study break.
- **Week 17:**  
Final exam.

## 5 Evaluation

Your grade in the course will be based on your marks in the problem sets, your marks in a midterm test and a final exam.

### 5.1 Problem Sets

The weekly problem sets will receive a weight of 20% in the final grade.

### 5.2 Midterm Exam

The midterm test will be held on Monday November 14, 18.30–20.00. The test will receive a weight of 31% in the final grade.

### 5.3 Final Exam

The final exam will take place on Wednesday February 1, 09.45–11.15. It will receive a weight of 49% in the final grade. It will cover the entire term's work. Much of the material in the second half of the course builds on the material in the first half, so it is difficult to say exactly how much of the exam relates to each part of the course. However, probably

between a quarter and a third of the points on the final exam will be for problems that could be answered on the basis of the material in the first half of the course alone.

## **5.4 Assessments**

These are challenging times for everyone. You are requested to behave responsibly throughout the session. The university is doing all it can to mitigate the risk of infection. If you become ill and it affects your ability to do your academic work, consult me right away. If you get a concussion, break your hand, or suffer some other acute injury, you should register with Accessibility Services as soon as possible.

## **6 Religious Accommodation**

As a student at the University of Vienna, you are part of a diverse community that welcomes and includes students and faculty from a wide range of backgrounds, cultural traditions, and spiritual beliefs. For my part, I will make every reasonable effort to avoid scheduling tests, examinations, or other compulsory activities on religious holy days not captured by statutory holidays. Further to University Policy, if you anticipate being absent from class or missing a major course activity (like a test, or in-class assignment) due to a religious observance, please let me know as early in the course as possible, and with sufficient notice (at least two to three weeks), so that we can work together to make alternate arrangements.

## **7 Learning Disability Accommodation Requirement**

Students with diverse learning styles and needs are welcome in this course. If you have an acute or ongoing disability issue or accommodation need, you should register with the Accessible Studying Team at the beginning of the academic year. Without registration, you will not be able to verify your situation with your instructors, and instructors will not be advised about your accommodation needs. The Accessible Studying Team will assess your medical situation, develop an accommodation plan with you, and support you in requesting accommodation for your course work. Remember that the process of accommodation is private: Accessible Studying Team will not share details of your condition with any instructor, and your instructors will not reveal that you are registered with the Accessible Studying Team.

## **8 Academic Integrity**

All students, faculty and staff are expected to follow the University's guidelines and policies on academic integrity. For students, this means following the standards of academic honesty when writing assignments, collaborating with fellow students, and writing tests and exams. Any discussion of course material is forbidden during the testing window of both midterm and final exam. Ensure that the work you submit for grading represents your own honest efforts. Plagiarism – representing someone else's work as your own or submitting

work that you have previously submitted for marks in another class or program – is a serious offence that can result in sanctions. Speak to me or your TA for advice on anything that you find unclear.

## **9 Accommodation for Personal Reasons**

There may be times when you are unable to complete course work on time due to non-medical reasons. If you have concerns, speak to me.

## **10 Moodle Information**

This course uses the University’s learning management system, Moodle, to post information about the course. This includes materials required to complete class activities and course assignments as well as share important announcements and updates. The site is dynamic and new information and resources will be posted regularly as we move through the term. The principal source of information about all course-related work will be the course site in Moodle, so please make it a habit to log in to the site on a regular if not daily basis. To access the course website, go to the UniVie portal log-in page at <https://moodle.univie.ac.at> and log in using your u:account-userID and password. Once you have logged in to the portal, look for the “My Courses” module where you will find a link to the microeconomics course site. Note that if you are currently enrolled in other courses at the University, your other course links will also appear here. Click on the microeconomics link to open our course area and view the latest announcements and updates, and access your course resources.

**SPECIAL NOTE ABOUT GRADES POSTED ONLINE:** Please note that any grades posted within the Moodle – Gradebook are posted for your information only, so you can view and track your progress through the course. No grades are considered official, included any posted in Moodle at any point in the term, until they have been formally approved by me at the end of the course. Please contact me as soon as possible if you think there is an error in any grade posted on Moodle.

## **11 Cell Phone and Laptop Use**

Technology can support student learning, but it can also become a distraction. Research indicates that multi-tasking (texting, surfing the Internet, using social networks) during class time can have a negative impact on learning (Clapp, Rubens, Sabharwal & Gazzaley, 2011; Ellis, Daniels, Jauregui, 2010; Hembrooke & Gay, 2003). Out of respect for your fellow learners in this class, please refrain from using laptops or mobile phones for entertainment during class and do not display any material on a laptop which may be distracting or offensive to your fellow students. Laptops may be used only for legitimate classroom purposes, such as taking notes, downloading course information from Moodle, or working on an assigned in-class exercise. Checking social media, e-mail, texting, games, and surfing the web are not legitimate classroom purposes. Such inappropriate laptop and mobile phone use is distracting to those seated around you.

## 12 Participation

This course is built on your participation. Please make all efforts to attend all classes and actively participate in discussions and in-class experiments. In our structured and unstructured discussions and dialogues, we will have many opportunities to explore challenging issues and increase our understandings of different perspectives. A positive learning environment relies upon creating an atmosphere where diverse perspectives can be expressed. Each student is encouraged to take an active part in class discussions and activities. Honest and respectful dialogue is expected. Disagreement and challenging of ideas in a supportive and sensitive manner is encouraged. Hostility and disrespectful behaviour is not acceptable. In the time we share together over this term, please honour the uniqueness of your fellow classmates and appreciate the opportunity we have to learn from each other. Please respect each others' opinions and refrain from personal attacks or demeaning comments of any kind. Just as we expect others to listen attentively to our own views, we must reciprocate and listen to others when they speak, especially when we disagree with them. In this class, our emphasis will be on engaging in the mutual exploration of issues as presented in the course readings as scholars, rather than in defending points of view we have formed outside the classroom.