

ECO 201: Microeconomics

Credits: 3

Lecture Hours: 48

Course Objectives

This module aims to develop students' understanding of the microeconomic concepts and theories in order to enhance their skill in analyzing business opportunities, market and risks.

Course Description

Microeconomics: concepts and uses. Theory of demand and supply: demand function, change in quantity demanded and change in demand, supply function: change in quantity supplied and change in supply, elasticity of demand and supply – concepts, degrees and measurements. Utility Analysis: cardinal vs ordinal utility and indifference curve analysis. Theory of production: Production function, laws of production. Cost and revenue curves. Pricing: Price and output determination under perfect competition, monopoly and monopolistic competition, concept of oligopoly. Factor pricing: rent (modern theory of rent) wages (marginal productivity theory), interest (loanable fund theory and liquidity preference theory) and profit (dynamic theory and innovation theory).

Course Details

Unit 1: Introduction to Microeconomics

LH 3

Meaning, Scope, Types, Uses

Unit 2: Theory of Demand and Supply

LH 6

Demand function : Meaning and types, Movement along a demand curve and shifts in demand curve. Supply Function. Meaning and types, Movement along a supply curve and shifts in supply curve Concept of Elasticity of demand and supply, Price elasticity of demand: degrees, measurement (percentage, total outlay, point and arc methods), uses in business decision making, Income elasticity of demand: degrees, measurement (percentage, arc and point methods), Cross elasticity of demand: types, measurement (percentage and arc methods), Price elasticity of supply: degrees, measurement (percentage, point and arc methods).

Measurement of elasticity

Unit 3: Theory of Consumer's Behaviour

LH 8

Cardinal vs ordinal utility. Indifference curve analysis : Meaning, assumptions and properties, Principle of MRS, Consumer's equilibrium, Price effect – derivation of PCC and demand curves for normal goods (substitutes and complements), Income effect – derivation of ICC and Engel curves for normal goods and inferior goods , Substitution effect – Hicksian approach, Decomposition of price effect into income and substitution effects – Hicksian approach , Applications – tax and subsidy, income leisure choice of workers

Computations and Numerical assignments

Unit 4: Theory of Production**LH 7**

Concept of total, average and marginal product. Production function – meaning, types (short run and long run production function, Cobb-Douglas production function. Law of variable proportions (explanation of three stages of production with reasons). Isoquants: Meaning, assumptions and properties, Principle of marginal rate of technical substitution, Optimal employment of two inputs (or least cost combination of two inputs), Laws of returns to scale, Explanation with table and diagram (using IQ).

Computations and Numerical assignments

Unit 5: Cost and Revenue Curves**LH 8**

Cost function. Various concepts of costs: opportunity cost, explicit and implicit costs, accounting and economic costs. Short run costs: Behavior of short run total costs, Behavior of average and marginal cost curves, Relation between AC and MC, TVC and MC and AC and AFC and AVC. Long run costs, Meaning, Derivation of U-shaped and L-shaped LAC with reasons. Revenue: Revenue under perfect competition, Revenue under imperfect competition, Relationship of Revenues (TR, AR and MR) with price elasticity of demand.

Computations and Numerical assignments

Unit 6: Theory of Product Pricing**LH 10**

Profit maximization and equilibrium of a firm: TR-TC approach (table and diagram), MR-MC approach (table and diagram). Equilibrium price and output determination under perfect competition: Meaning and characteristics, Derivation of short run supply curve of a firm, Short run equilibrium (firm and industry), Long run equilibrium (firm and industry). Equilibrium price and output determination under monopoly: Meaning and characteristics, Short run equilibrium, Long run equilibrium, Meaning and conditions of price discrimination, Degrees of price discrimination, Equilibrium of firm under third degree discrimination. Equilibrium price and output determination under monopolistic competition: Meaning and characteristics, Short run equilibrium, Long run equilibrium of a firm. Oligopoly: Meaning and characteristics.

Computations and Numerical assignments

Unit 7: Theory of Factor Pricing**LH 6**

Rent: Concept of economic rent and its determination: modern theory of rent. Wages: Marginal productivity theory of wages. Interest: Loanable funds theory of interest, Liquidity preference theory of interest. Profits, Dynamic theory of profits, Innovation theory of profits.

Computations and Numerical assignments

References

- Ahuja, H.C. *Advanced Economic Theory – Micro Economic Analysis*, New Delhi – S. Chand (Latest ed.)
Browning and Browning (1994), *Microeconomic Theory and Applications*, New Delhi, Kalyani Publishers
Case, Karl E. and Ray C. Fair, (2002), *Principles of Economics*, Singapore, Pearson Education
Dwivedi DN (2003), *Microeconomics Theory and Applications*, Delhi, Pearson Education Pvt. Ltd.
Dwivedi DN (2010), *Microeconomics Theory and Practice*, New Delhi, Tata McGraw Hill.
Koutsoyianis, A (1979), *Modern Microeconomics*, London, Macmillan
McConnell CR and S. Brue, (2002), *Economics : Principles, Problems and Policies*, New York, McGraw Hill.