

*American University*  
*Department of Economics*

**ECON-200-02 Microeconomics, Fall 2008**  
**Tuesday-Friday 3:35-4:50 PM, Hurst 1**

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Office Hours:  
Tuesday 5:00-6:30 PM  
Friday 11 AM-12:30 PM,  
and by appointment

**General Education:** Econ-200, Microeconomics, is a second level course that, when taken together with Econ-100, Macroeconomics, satisfies the General Education requirement for Curricular Area 4, Social Institutions and Behavior.

**Course Objectives:** This course presents an economic approach to thinking about how and why modern economies work and about making rational decisions about scarce resources. Microeconomics provides a disciplined way to think about tradeoffs, about the outcomes of interactions among economic actors, and about how incentives affect behavior. The focus is on the operations of a market economy as well as the interaction between markets and government. Microeconomic analysis offers a framework for judging the effectiveness of alternative policies and institutions and provides guidelines for thinking about personal financial decisions. It yields answers to “big-think” and “little-think” questions, such as:

*Big think*

Can market capitalism, in which corporations strive to make maximum profits, yield the best economic outcomes? Why and why not?  
What is causing gas prices to rise and what, if anything, should the government do about it?  
What are best ways of collecting taxes and of helping the poor?  
What functions are served by the stock market and other parts of the financial system?  
What is creating serious problems in the mortgage market?  
How can we use the market system to deal with environmental and energy concerns?

*Little think*

What strategy should I use to determine how I save and invest?  
How do I raise money to start a company? What are the best approaches?  
How much schooling should I complete?  
How should I choose among alternative ways of financing a home?

This course offers a way of thinking relevant not only to economics, but also to political science, sociology, international affairs, philosophy, anthropology, and history. Hard-working students will understand how to apply economic principles to personal finance and to public policy issues involving health, welfare, education, the environmental, and trade. Many issues raised in the Presidential and Congressional campaigns deal with economic issues directly addressed in this course.

**Required Text, Readings, Supplements:** John Taylor and Akila Weerapana *Principles of Microeconomics*. 2006. (6th edition). E-book integrated with Paul Romer APLIA (an on-line educational resource).

We will read and discuss other readings, including selected chapters from the *Economic Report of the President* in various years. All the supplementary readings and power points will be available on blackboard, Aplia, the AU library e-books and the following web site.

<http://www.gpoaccess.gov/eop/index.html>.

You will be using Aplia for this course. Aplia is an online product that contains both a digital version of the textbook and online homework. You can purchase the product on-line at [www.aplia.com](http://www.aplia.com) or through the bookstore. In addition, you can buy the standard text at the bookstore or from Aplia. APLIA includes an array of learning aides, tutorials, self-testing, and special content. Students will complete their homework at the APLIA site as well. Students should register after receiving the instructions. We will be using this site for special readings that will guide our discussions, for problem sets, for tutorials, for practice tests, and for experiments. ***It is critical that you keep up with the homework. Many students have performed well on exams and projects, but done poorly on Aplia. You are welcome to collaborate and work together on the homework.***

You might wish to purchase or share a 15 week subscription (or longer) to the Wall Street Journal (which includes on-line access). The student price is \$29.95 for both the print and web subscription for 15 weeks. Reading articles in the WSJ will provide interesting current illustrations of the topics covered in the course. Sign up at <http://subscribe.wsj.com/semester>.

For those interested in a conversational presentation of some of the issues, I recommend buying (it is inexpensive) and reading chapters from Charles Wheelan. 2002. *Naked Economics: Undressing the Dismal Science*. W.W. Norton and Company.

#### **Course Evaluation:**

Two Midterm Exams	34%
Final Exam	30%
Problem Sets	20%
Student Project and class discussion	16%

The first midterm will be held in class on Friday, **September 26**. The second midterm exam will take place in class on Friday, **November 7**. The final exam will be cumulative and will be held on **December 8** from **2:10-4:50 PM**. Students will receive a number of review questions as a guide to the examination questions. In addition, I will occasionally assign short written assignments.

One way of learning about markets is to study how individual sectors actually operate in the economy. As an active learning project for this class, students will work in teams of four people to study specific industries and make a class presentation on various aspects of the development of industries such as steel, airlines, textiles, oil, and computer hardware. The industry analyses will cover several of the following: trends in employment, revenue, productivity, and profitability; the structure of the industry; the competitive nature of the industry; the turnover of firms; the causes of industry growth and decline; and the extent of government intervention into the industry. Class presentations will take place during the last three classes of the semester. Each presentation will last 15 minutes. Students will hand in outlines of their presentation no later than two weeks before they are to appear. Sources for the project include material from the electronic book, *US Industry in 2000*, from the book, *Innovation in Global Industries* (both National Academy Press), and materials you can access through the Sloan Industry Studies website, <http://www.industry.sloan.org/centershome.asp>.

**Attendance is mandatory in the class.** Each student will be allowed three unexcused absences. Students will be assessed a deduction from their grades of 1 point for additional absences.

Students must take the tests at the listed times. No make-up tests will be allowed except for unusual circumstances. It is the responsibility of students to plan their travel, leisure and extracurricular activities, and jobs so that they do not conflict with classes and exams.

My presentations will emphasize aspects of the readings but will not cover everything. Students should read the material before the lecture and come with questions on issues they do not

understand. The class will involve class discussion of text material, problems, and current events. Some of the issues raised in the discussions could be on the exams. In addition, together we will raise and discuss news topics that illustrate aspects of microeconomics.

<b>Dates</b>	<b>Topics, Readings</b>
August 26	<b>Overview of Economic Approach</b> Taylor and Weerapana, Chapter 1
August 29	<b>Review of Basic Concepts</b> Scarcity and Trade, Notion of Market Economy Taylor and Weerapana, Chapter 2—Observing and Explaining the Economy
September 2	<b>Supply and Demand</b> Taylor and Weerapana, Chapter 3
September 5	<b>How Sensitive Are Prices to Changes in Supply or Demand?</b> Taylor and Weerapana, Chapter 4
September 9	<b>The Demand Curve and Consumer Surplus</b> Taylor and Weerapana, Chapter 5
September 12	<b>The Supply Curve and Producer Surplus</b> Taylor and Weerapana, Chapter 6
September 16	<b>Market Efficiency and Deadweight Losses</b> Taylor and Weerapana, Chapter 7
September 19	<b>How and Why Firms Try to Produce at Minimum Costs</b> Taylor and Weerapana, Chapters 8
September 23	<b>Competition, Free Markets, and Industry Change</b> Taylor and Weerapana, Chapter 9
September 26	<b>1<sup>st</sup> Midterm Examination</b>
September 30	<b>No Class</b>
October 3	<b>What Happens When One Company Dominates Markets?</b> Taylor and Weerapana, Chapter 10
October 7	<b>Oligopoly and Monopolistic Competition</b> Taylor and Weerapana, Chapter 11  Readings from <i>U.S. Industry in 2000</i> . National Academy Press. Electronic book through Aladin.

October 10-21	<p><b>Financing the Firm and Personal Finance</b> Taylor and Weerapana, Chapter 16</p> <p><i>Economic Report of the President: 2008</i>, Chapter 2, “Credit and Housing Markets” ; Bodie, Zvi. “A Note on Economic Principles and Financial Literacy.” (on Blackboard).</p> <p>Stock and bond indices in the Wall Street Journal or <a href="http://www.wsj.com">www.wsj.com</a>.</p>
October 17	<b>No Class—Fall Break</b>
October 24	<p><b>Jobs, Wages, and Careers</b> Taylor and Weerapana, Chapter 13, <i>Economic Report of the President: 2006</i>, Chapter 2: “Skills for the Workforce.”</p>
October 28-31	<p><b>Trade and Globalization</b> Taylor and Weerapana, Chapters 17-18 <i>Economic Report of the President: 2008</i>, Chapter 3 “The Causes and Consequences of Export Growth” <i>Economic Report of the President: 2005</i>, Chapter 8 “Modern International Trade”</p>
November 4	<p><b>Externalities: Energy and the Environment</b> Taylor and Weerapana, Chapter 10 <i>Economic Report of the President: 2008</i>, Chapter 7 “Searching for Alternative Energy Solutions.”</p>
November 7	<b>2<sup>nd</sup> Midterm</b>
November 11	<p><b>Public Goods and the Role of Government</b> Taylor and Weerapana, Chapter 15 <i>Economic Report of the President: 2008</i>, “The Nation’s Infrastructure”</p>
November 14	<b>Outline of Industry Presentation Due</b>
November 14-18	<p><b>Taxes and Government Social Benefits</b> Taylor and Weerapana, Chapter 14 <i>Economic Report of the President: 2008</i>, Chapter 5, “Tax Policy”</p>
November 21 December 2-5	<b>Student Industry Reports</b>
December 8	<b>Final Examination 2:10-4:50</b>