

University of Valencia
Department of Economic Analysis

PROGRAM

MICROECONOMICS I

Academic Year 2005-2006

PROGRAM**MICROECONOMICS I (12146)**

This course concentrates on microeconomic theory at an intermediate level. Students should have completed a course on introductory economics. The program includes topics that cover half the material normally treated in micro courses. The other half is included in Microeconomics II. Roughly, the program covers consumer theory and extensions, and an introduction to welfare and general equilibrium economics.

The main text used in the course will be:

Intermediate Microeconomics. A Modern Approach. By Hal R. Varian. Fourth Edition. Norton International Student Edition. New York, 1996. A Spanish translation exists under the title Microeconomía Intermedia (Second Edition). Editorial A. Bosch. Barcelona.

Other texts which cover the same material are:

Microeconomics and Behavior. By Robert A. Frank. Third Edition. Mc Graw-Hill. New York, 1997

Microeconomics. By Michael L. Katz and Harvey S. Rosen. Mc Graw-Hill. New York, 1998

The reference to chapters given below each lesson, corresponds to Varian's book.

LESSON 1: BASIC IDEAS

The characteristic elements of an economic problem
Optimization and equilibrium
Demand, Supply and Market Equilibrium
Practical applications

Chapter: 1

LESSON 2: CONSUMER THEORY (I): BUDGET CONSTRAINT

The budget constraint
Changes in the budget constraint
Taxes, subsidies and rationing
Examples

Chapter: 2

LESSON 3: CONSUMER THEORY (II): PREFERENCES

Consumer preferences
Indifference curves
Examples of preferences
The Marginal Rate of Substitution

Chapter: 3

LESSON 4: CONSUMER THEORY (III): UTILITY

Cardinal utility

Constructing a utility function

Examples of utility functions

Marginal utility and the Marginal Rate of Substitution

Chapter: 4

LESSON 5: CONSUMER THEORY (IV): CONSUMER EQUILIBRIUM

Optimal choice

Change in the equilibrium position

The income and substitution effects. The Slutsky equation

Implications of the Marginal Rate of Substitution conditions

Chapters: 4, 6 and 8

LESSON 6: EXTENSIONS AND APPLICATIONS OF CONSUMER THEORY

The approach of revealed preference

Budget constraints with fixed and changing endowments

The application of consumer theory to labour supply

Budget constraints and preferences over time

Chapters: 7, 9 and 10

LESSON 7: CONSUMER'S SURPLUS

The concept of consumer's surplus

Interpretation of changes in consumer surplus

Compensating and Equivalent Variations

Calculating Gains and Losses

Chapter: 14

LESSON 8: MARKET DEMAND

From individual to market demand

The inverse demand function

The concept of elasticity

Elasticity and marginal revenue

Income elasticity

Chapter: 15

LESSON 9: MARKET EQUILIBRIUM

Market equilibrium

Comparative statistics

Taxes. The deadweight loss of taxation

Pareto efficiency

Chapter: 16

LESSON 10: EXCHANGE

The Edgeworth Box
Pareto efficient allocations
Equilibrium and efficiency

Chapter: 28

LESSON 11: WELFARE

Aggregation of preferences
Social welfare functions
Welfare maximization

Chapter: 30

LESSON 12: MARKET FAILURES

Externalities. The Coase theorem
Public Goods. Public and private provision of public goods
Asymmetric information

Chapters: 31, 34 and 35