

ECO - 201 : Microeconomics

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.

Contents

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).

Detailed Course

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

- § Behaviour of short run total costs
- § Behaviour 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 maximisation 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

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