Econ 2113: Syllabus

- Professor: Augusto Nieto Barthaburu
- Office hours: TuTh 1:30-3:30 PM
- Office: Brewster A-438
- Email: barthaburua@ecu.edu
- Course website: http://core.ecu.edu/barthaburua/econ2113_sp09/
Econ 2113: Syllabus

Econ 2113: Exams

- Three midterms (25% of the grade each) and a final (25% of the grade)

- Midterms will be in lecture time (check syllabus for dates)

- Please refer to the University catalog for the date, time and location of the final exam.
Econ 2113: Exams and homework

- **Policies for exams:**
  - **There will be absolutely no makeup exams.** If you have to miss a midterm for a medical or other University approved reason, the weight will be allocated to the final exam. In that case, you will need to provide proof of your situation. The weights will not be reallocated for any other reason.

- **Homework**
  - HW will be assigned every week but not collected, so you are encouraged to try the problems, even if you are not sure about the answer.
  - Solutions will be provided at the course’s website.
  - HW is the best preparation for the exams, so it is very important that you attempt all of the problems BEFORE looking at the solutions.
Econ 2113: Tips for doing well

- Do the homework. The formal concepts you will learn in this class will seem very logical. Because a lot of the material will seem like “common sense” when we talk about them, many students will believe they have a good grasp of what’s going on before they actually do. These students are sad after exams - don’t be one of them!

- Talk about the material with your classmates. Learning with friends is fun!
Econ 2113: Description

- This course is designed to introduce you to the basic foundations of microeconomic analysis.

- We will begin by giving a brief overview of why individuals interact in a market setting.

- Then we will discuss supply, demand and market equilibrium.

- After having done this, we will examine how individuals and firms make decisions under perfect competition.

- Then we will analyze monopolistic and oligopolistic markets.

- If time permits, we will discuss topics on market failure, public economics, the economics of information and income distribution.
Econ 2113: Administrative Issues

- If you have a documented disability, please bring your documentation and come to talk to me as soon as possible so that I can make suitable accommodations for you.

- Any student found guilty of academic dishonesty will earn a failing grade for the course. In addition to this academic sanction that I will impose, I will report the incident to the University.

- If you arrive late to an exam, I will allow you to take the exam in the time that remains as long as no one has turned in his/her exam and left the room. If a classmate has already turned in his/her exam and you arrive late, you will earn a zero on the test.

- 4. **There will be absolutely no makeup exams.** If you have to miss a midterm for a medical or other University approved reason, the weight will be allocated to the final exam. In that case, you will need to provide proof of your situation. The weights will not be reallocated for any other reason.
What is economics?

- Economics is the study of how people and businesses make decisions under conditions of scarcity, and the implications of those decisions for society as a whole.

- Two basic ideas
  - We have unlimited wants
  - We have scarce resources

- Implication: people must make tradeoffs.
Microeconomics vs. Macroeconomics

- Microeconomics: The study of individual choice under scarcity and its implications for the behavior of prices and quantities.

- Macroeconomics: the study of the performance of national economies and the policies that governments use to try to improve that performance.
The Role of Economic Models

- This course is an introduction to Microeconomics

- This quarter we will be studying models of decision-making by firms and households

- These models are meant to explain and predict individuals’ decisions even if individuals are not consciously aware of how they make those decisions

- By making assumptions about how individuals’ make decisions, we can make predictions about what will happen when the conditions in the economic system change
The Economic Way of Thinking

● Economic agents (firms and households) are “rational”: they respond to incentives

● In most of this course we assume that agents are self interested

● There is scarcity

● Agents must make choices about tradeoffs
Self-Interest and Incentives

- Self-interest does not necessarily imply selfishness.

- If someone values altruism, they may use their resources to satisfy that desire for helping others.

- Then we can think that they are still acting in their “self-interest” - their self-interest incorporates others’ well-being.
Economic Surplus

- Economic surplus is the total benefit of taking an action minus total cost.

- The goal of rational, self-interested, economic decision makers is to maximize their economic surplus.
Thinking “on the margin”

- Marginal cost: the *increase* in total cost that results from carrying out an activity

- Marginal benefit: the *increase* in total benefit that results from carrying out an activity

- Rational agents will only perform an activity if the marginal benefit from it is larger or equal than the marginal cost
Cost-Benefit Principle

- An individual (or a firm, or a society) should take an action if, and only if, the extra benefits from taking the action are at least as great as the extra costs.

- How much of an activity to undertake?

- Setting marginal benefit equal to marginal cost maximizes the agent’s economic surplus (benefits - costs). This is the ‘optimal’ action.
Average-Marginal Distinction

- **Average cost/benefit:** the total cost/benefit of undertaking $n$ units of an activity divided by $n$

- **Marginal cost/benefit:** the *increase* in total cost/benefit that results from carrying out one additional unit of an activity

- Think about your grades. The marginal grade is the grade that you get in your next course. The average grade is your GPA
NASA space shuttle example

- How many shuttles should NASA launch per year?
  - Benefits of 3 launches
    - $18 billion (average and marginal benefit is $6b per launch)
  - Costs of 3 launches
    - $12 billion (average cost of $4b per launch)

- Should NASA do three launches per year at least? Should NASA expand the shuttle program from three launches per year to four?
NASA space shuttle example

- We don’t have enough information to answer the questions! We need to know what the cost and benefit of the next launch will be!
**NASA space shuttle example**

<table>
<thead>
<tr>
<th>Launches</th>
<th>Total Cost</th>
<th>Avg. Cost</th>
<th>Marg. Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>5</td>
<td>2.5</td>
<td>4</td>
</tr>
<tr>
<td>3</td>
<td>12</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td>4</td>
<td>20</td>
<td>5</td>
<td>8</td>
</tr>
<tr>
<td>5</td>
<td>32</td>
<td>6.4</td>
<td>12</td>
</tr>
</tbody>
</table>

Marginal benefit = average benefit = $6 billion
Opportunity Costs

- Every choice has a cost.
  - Example: college education: tuition, fees, yes… and also *foregone wages*!

- Opportunity cost: the value of the next best alternative that must be foregone in order to undertake the activity