

PORTLAND STATE UNIVERSITY
WINTER TERM 2012

EC 311: MICROECONOMIC THEORY

This course starts with the analysis of the rational behavior of the two primary actors in a perfectly competitive market economy: 1) the representative “household”, which makes decisions regarding its supplies of labor and capital (savings) as well as its demands for good and services, in order to maximize its “utility”; and 2) the representative “firm”, which makes decisions regarding its demands for labor and capital as well as its supplies of goods and services, in order to maximize its profits. We then broaden our view to the entire market for any good (output) or input in which these actors participate, and finally, extend this partial-equilibrium context into a full 2-sector model of “general” equilibrium. We then use this to discuss the meaning of competitive-market “efficiency” and contrast this with distributional aspects.

In the second half of the course we look at market “failures” which result in the inefficiency of market outcomes, and the desirability of governmental corrective action. These principally include: 1) imperfect competition such as monopoly or oligopoly; 2) externalities such as pollution; and 3) informational distortions such as asymmetric information, We conclude with a look at decision making under risk – a familiar and ever-present form of informational problem – including expectation formation and decisions over time.

The required text for this course will be a “special edition” of Pindyck and Rubinfeld (P&R), Microeconomics textbook in which the publishers (Pearson) have excerpted selected chapters, although students are of course free to purchase the original book or others of similar content (“recent” editions are generally OK – see me if in doubt). I will also place copies of several intermediate micro textbooks on 72-hour library reserve.

The following reading references are to chapters in P&R’s full text (I will guide you to the relevant excerpted material if and as needed) but the topical sequence is the guide to what you should be studying if in doubt.

Week-dates	<u>topic</u> (suggested reading)
1-1/09-13	Introduction; modeling rational choice and economic behavior: objectives and constraints; Consumer theory: utility functions: derivation of demand, cross-demand and Engel curves; elasticity measures
2-1/16-20	income and substitution effects; measurement of the effects of price changes: compensating and equivalent variations; consumer’s surplus; applications

