

MICROECONOMICS

Course Outline

Topic 1. ECONOMIC THEORY: THE SUBJECT OF STUDYING AND METHODOLOGY

Economics theory and its place in the system of economic sciences. Economic activity and its components: wants, economic resources, boons. Basic problem of the organization of economic activity. Production possibilities frontier and rational economic choice. Opportunity cost.

The subject of studying of Microeconomics as a part of Economic theory. General and specific research methods used in Microeconomics. The ceteris paribus assumption. Economic models. Marginal analysis. Positive vs. normative economics

Topic 2. DEMAND AND SUPPLY. MARKET EQUILIBRIUM AND DISEQUILIBRIUM

The nature of the demand. Demand function. The law of the demand. The determinants of demand. Shifts in the demand curve vs. movement along the demand curve. Market demand versus individual demand.

The nature of the supply. Supply function. The law of the supply. The Supply curve. The determinants of supply. Shifts in the supply curve vs. movement along the supply curve. Market supply versus individual supply.

Market equilibrium establishment and price of equilibrium. Deficit and surplus. Static and dynamic equilibrium. Applied aspects of the model of demand and supply. Consequences of the government intervention in the market mechanism (by fixing the prices, taxation, subsidies).

Topic 3. ELASTICITY OF THE DEMAND AND SUPPLY

Concept of elasticity and estimation of elasticity. The price elasticity of demand and its determinants. Point elasticity for a linear demand curve. Arc elasticity. Elasticity and total expenditure.

Income elasticity of demand and its determinants. Normal, inferior and Giffen goods. Cross price elasticity of demand.

Price elasticity of supply price: essence, types and determinants. Applied aspects of the theory of elasticity.

Topic 4. THE THEORY OF CONSUMER BEHAVIOR

Preferences, prices and income as general determinants of consumer behavior. Utility functions. Cardinal vs. ordinal utility. Total and marginal utility. The law of diminishing marginal utility. Assumptions concerning consumer preferences. Indifference curves. An indifference map. The marginal rate of substitution. Perfect substitutes and perfect complements.

The budget line. The effects of changes in income and prices. Utility maximization and consumer's equilibrium. Interior and corner solutions. Income modification and consumer behavior: "Income – Consumption Curve" and Engel curves. Price modification and consumer behavior: "Price – Consumption Curve" and derived individual demand curve.

Topic 5. THE THEORY OF PRODUCTION

The production and factors of production. Fixed and variable inputs. The production function. Types of production function.

Measures of productivity. Total, average and marginal product of a variable input and the interdependence between them. The law of diminishing marginal returns and total product maximizing conditions.

An Isoquant. The types of isoquants. The map of isoquants. The marginal rate of technical substitution.

Returns to scale. Determinants of increasing and decreasing returns to scale. Constant returns to scale.

Topic 6. THE COSTS OF PRODUCTION

The Nature of production costs. Explicit and implicit costs. Accounting costs vs. economic costs. Sunk costs.

The cost functions. The Isocost line. Costs in the short-run. Total costs, average costs, marginal costs and their evolution in conditions of changeable output.

Costs in the long run. Total cost, average cost and marginal cost and their evolution in the long-run. Economies and diseconomies of scale.

Topic 7. PROFIT MAXIMIZATION AND THE BREAK-EVEN POINT

The essence of the profit. Total Revenue and profit of the firm. Accounting, economic and normal profit.

Total profit, average profit and marginal profit. The logic of profit maximization. Profit maximization in the short-run. Profit maximization in the long-run. The break-even point of the firm.

Topic 8. PRICE AND OUTPUT UNDER PERFECT COMPETITION

The nature and features of perfectly competitive markets. The competitive firm's demand curve.

Profit maximization in the short-run. Total revenue – total cost approach. Marginal revenue – marginal cost approach: profit maximization, losses minimization and shut-down decisions.

The competitive firm's supply curve. Long run profit maximization. Advantages and disadvantages of perfect competition. Applied aspects of the model of perfect competition.

Topic 9. PRICE AND OUTPUT UNDER PURE MONOPOLY

Pure monopoly and its properties. Strategic barriers to entry. Monopoly demand. Monopoly total revenue and its maximization.

The monopolist's profit maximizing output and price. Monopoly supply curve.

Equilibrium on the market of perfect competition and pure monopoly: comparative analysis.

Applied aspects of pure monopoly model. Price discrimination. Types of price discrimination. Monopolist reaction on maximum price, taxes and subsidies. Monopoly power. The Lerner index.

Social cost of monopoly.

Topic 10. PRICE AND OUTPUT UNDER MONOPOLISTIC COMPETITION

Monopolistic competition and its properties. Short-run equilibrium on the market of monopolistic competition.

Long-run equilibrium on the market of monopolistic competition. Monopolistic competition and economic efficiency. Excess capacity.

Monopolistic competition, pure monopoly and perfect competition: comparative analysis.

Topic 11. PRICE AND OUTPUT UNDER OLIGOPOLY

Oligopoly and its properties. Cooperative and competitive strategies of oligopolists.

Models of equilibrium in conditions of competitive behavior of oligopolies: the Bertrand model, the Cournot model, model of partial monopoly.

Equilibrium in conditions of cooperative behavior of oligopolists: collusion and cartels.

Advantages and disadvantages of Oligopoly.

Bibliography

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2. Mankiw N., Gregory “*Principles of Microeconomics*, 7th Edition ” Cengage Learning. 2012.
3. Pindyck R, Rubinfeld D. “*Microeconomics*” 8th edition. Pearson Prentice Hall., 2012
4. Paul Krugman., Robin Wells. *Microeconomics*. 3rd edition Princeton University, 2013.
5. Strategia Națională de Dezvoltare a Republicii Moldova 2012-2020
6. Strategia Națională de dezvoltare regională 2016-2020
7. Strategiei securității naționale a Republicii Moldova 2011.