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**DEPARTMENT OF ECONOMICS**

**ECONOMICS 114**

**MODULE OUTLINE**

**2019**

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**Lecturers:** Prof AP de Villiers

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Mr MP van Schoor

Mr WJ Wilken

**Internal moderator:** Prof SWF du Plessis

**Overview, aims and outcomes of the module:**

The Greek word economics means “the management of the household”. This description may sound strange, but there are actually many similarities between a household and an economy. Decisions have to be made at household level, e.g. who is cooking dinner, who is doing the shopping, where the next holiday will be, etc. These decisions are subject to scarcity; e.g. the ability to cook, financial means and available time. In the same way, decisions also have to be made within societies who are subject to scarcity. A government, for example, has to decide whether more schools or more hospitals should be built with the available funds. Economics is the study of scarcity.

In the first section of the module attention is given to a definition of economics. The focus is on the big questions being asked in economics, and the economic problem is identified. Students are exposed to different economic principles and the economic way of thinking.

The next section of the module focuses on how markets determine prices through the mechanism of demand and supply. We also look at the consumer’s preferences and how it determines demand, as well as how sensitive market agents’ quantity demanded and supplied are to price changes (elasticities). We investigate the welfare of market agents with the aid of the concepts such as consumer surplus and producer surplus. The influence of government policies on markets and its impact on the welfare of market agents are also investigated.

Hereafter we explore the behaviour of firms given different market structures. This is an important aspect of how the supply side in a market is determined.

The following section of the module gives attention to the problem of market failure. Here we specifically look at the impact of one party’s activities on other market agents; an external benefit or cost to the latter party for which the former party does not receive compensation or does not accept responsibility for the costs (externalities). A good example of this is pollution. We also look

at the difference between private and public goods. Lastly, we analyse labour markets, which is important from both the perspective of the firm and of the individual.

After completion of the module, students will have a working knowledge of basic microeconomic theory: amongst others how demand and supply influence prices, the production decisions and various costs that every firm faces, and especially the behaviour of firms in the different types of market structures. Students will be able to explain what externalities are, why it causes market failure and the role of government policy to address the problem. Students will also be able to distinguish between private and public goods. Finally, students will have a basic knowledge of the labour market.

### **General Information:**

Students are referred to the “Yellow booklet”, which contains information on lectures, tests, tutorial classes, etc. It must be studied thoroughly: **if a student fails to comply with the module requirements contained in it (including the requirements w.r.t. tutorial class attendance), the student will not gain access to the examination, and therefore cannot pass the module.**

**Please note that you must ensure that you download a copy of the “Yellow booklet” from SUNLearn. Please ask your lecturer if anything is unclear to you.**

### **LANGUAGE OF INSTRUCTION:**

For this module where it is reasonably practicable and pedagogically sound to have more than one class group, the following applies:

- There are separate lectures in Afrikaans and English.
- Learning opportunities, such as group work, assignments, tutorials and practicals involving students from both language groups are utilised to promote integration within programmes.
- Students are supported in Afrikaans and English during a combination of appropriate, facilitated learning opportunities (e.g. consultations during office hours or scheduled tutorials and practicals).

### **PRESCRIBED TEXTBOOK:**

Parkin, M. 2015. *Microeconomics*. 12<sup>th</sup> edition. Global Edition. Pearson Higher Education.

**OR** Parkin, M. 2014. *Microeconomics*. 11<sup>th</sup> edition. Global Edition. Pearson Higher Education.

## INTRODUCTION TO ECONOMICS

### ECONOMICS: THE SCIENCE OF SCARCITY

(Please note that the outline below merely contains the main points within each section of the module and does not necessarily indicate all topics. Deviations and additions may be announced during lectures.)

#### 1. *Introduction to Economics*

(Chapter 1; Appendix)

- What is Economics?
- Distinguish between Microeconomics and Macroeconomics
- Big questions in Economics
- Economic way of thinking
- Economics as social science

#### 2. *The economic problem*

(Chapter 2)

- Production possibilities and opportunity cost
- Using resources efficiently
- Economic growth
- Economic coordination

## MICROECONOMICS

### DEMAND AND SUPPLY: HOW DO MARKETS WORK?

#### 3. *Demand and supply*

(Chapter 3)

- Markets and prices
- Demand
- Supply
- Market equilibrium
- Changes in demand and supply

#### 4. *Elasticity*

(Chapter 4)

- Price elasticity of demand
- Income elasticity of demand, cross price elasticity of demand
- Price elasticity of supply

#### 5. *Efficiency and equity*

(Chapter 5)

- Resource allocation methods
- Demand and marginal benefit

- Supply and marginal cost
- Is the competitive market efficient?
- Is the competitive market fair?

6. *Government actions in markets*

(Chapter 6)

- Price ceilings
- Price floors
- Taxes

## **CONSUMER THEORY**

7. *Consumer choice theory*

(Chapter 8 and 9)

- Utility and demand
- Consumption possibilities
- Preferences and indifference curves
- Predicting consumer behaviour

## **THE COST OF PRODUCTION AND MARKET STRUCTURES**

8. *Production and costs*

(Chapters 10 and 11)

- Organising production
- Short run versus long run
- Short-run costs
- Long-run costs

9. *Perfect competition*

(Chapter 12)

- What is perfect competition?
- A firm's decision-making in perfect competition
- Output, prices and profit in perfect competition
- Changes in tastes and improved technology
- Competition and efficiency

10. *Monopoly*

(Chapter 13)

- Market power
- Monopoly's output and price decisions
- Compare monopoly and perfect competition
- Price discrimination

*11. Monopolistic competition*

(Chapter 14)

- What is monopolistic competition?
- Price and output in monopolistic competition
- Product development and marketing

*12. Oligopoly and action against misuse of market power*

(Chapters 10, 13, 14 and 15, Additional notes)

## **MARKET FAILURES**

*13. Public choices and Public Goods*

(Chapter 16)

- Classification of goods and resources
- Providing public goods
- Positive externalities

*14. Economics of the Environment*

(Chapter 17)

- Negative externalities

## **FACTOR MARKETS**

*15. The labour market as an example*

(Chapter 18)

- The demand for a factor of production
- Labour markets
- Market power in labour markets