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DEPARTMENT OF ECONOMICS

ECONOMICS 214 MICROECONOMICS

2019

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Tutors: Mr C Links: calumetlinks@sun.ac.za
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I. LECTURER CONTACT DETAILS:

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2. OUTCOMES:

For any student in economics it is important to understand the working of the market mechanism. In this module the working of the market mechanism under different circumstances is investigated.

At the end of this module the student should be able to:

- explain the role of the market in the economy;
- motivate how the market determines the production of goods and services as well as the distribution thereof;
- determine whether the market system operates efficiently under all circumstances;
- explain the interdependence of different consumers;
- explain the effect of government intervention in the economy.

3. PRESCRIBED LITERATURE:

The prescribed textbook is: De Villiers, Pierre & Frank, Robert. 2015. *Microeconomics and Behaviour. Second Southern African Edition*. McGraw-Hill: London

Other literature used:

From time to time additional literature may be used in class. These notes will be made available in class. Notes will only be made available once in the class. If you are not present in the class you must collect the notes yourself within 2 days at Ms Wanza in Room 609.

The references in the work programme refer to De Villiers and Frank.

4. LANGUAGE OF INSTRUCTION

For this undergraduate module where both Afrikaans and English are used in the same class group, the combination of facilitated learning opportunities is as follows:

- During each lecture, all information is conveyed at least in English and summaries or emphasis on content are also given in Afrikaans. Questions in Afrikaans and English are, at the least, answered in the language of the question.
- 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).
- For first-year modules, SU makes simultaneous interpreting available during each lecture. During the second and subsequent years of study, simultaneous interpreting is made available by SU upon request by a faculty, if the needs of the students warrant the service and SU has the resources to provide it. If two weeks have passed with no students making use of the interpreting service, it may be discontinued.

5. GROUP ALLOCATION

Formal lectures:

GROUPS	DAY	PERIOD	214
			BUILDING AN D VENUE
Gr 1	Monday	15:00	Van der Sterr 3124
	Tuesday	12:00	Van der Sterr 2121
	Thursday	14:00	Van der Sterr 3124
Gr 2	Tuesday	09:00	MathsSc/IndPsych 1005
	Wednesday	11:00	MathsSc/IndPsych 1005
	Friday	12:00	MathsSc/IndPsych 1005

Tutorial periods:

LANGUAGE OF INSTRUCTION	DAY	PERIOD	214
			BUILDING AN D VENUE
Afrikaans	Wednesday	13:00	CGW Schumann 204
English	Thursday	13:00	Van der Sterr 1010
Afrikaans	Friday	14:00	CGW Schumann 107
English	Friday	15:00	CGW Schumann 107

6. COMPOSITION OF FINAL MARKS

The faculty has a system of Flexible Assessment, which consists of both summative and formative assessment. Summative assessment consists of a Main assessment A1 during the test period in the semester, Main assessment A2 during the first examination opportunity and Main assessment A3 during the second examination opportunity. There is also a further assessment opportunity (FA) that will be taken into consideration when compiling the final mark. Formative assessment is not used in the calculation of the final mark, although certain minimum requirements must be met to pass the module. Students must make sure that they are familiar with the formative assessment requirements for each module.

In Economics 214 formative assessment will be done by means of electronic tutorials. The tutorial questions will be made available electronically on Mondays. Students must answer these questions electronically before Wednesdays 23:59. These assessment marks will be compiled into the final tutorial mark at the end of the semester. The worst two tutorial assessment marks will not be taken into consideration in this calculation. A student must achieve a mark of at least 50% in these electronic tutorials to pass this module. Answers will only be discussed in the tutorial periods.

A student who proves his/her progress by obtaining 55% or more in A2 or A3, will be exempted from the subminimum of 50% for the online tutorial tests.

See the undergraduate assessment regulation that deals with the promotion rules for exams: http://www.sun.ac.za/english/faculty/economy/Documents/Undergraduate_Assessment_Regulations.pdf

All information is there and students must make sure they understand the contents of this regulation.

Students have to write at least **two** of the three main assessment opportunities. Summative main assessment A1 cover specific parts of the work while summative main assessment A2 and summative main assessment A3 covers all the work. Further summative assessment (FAS) is done with the aid of an essay.

The **weight** of the main assessments tests in the calculation of the final mark if summative main assessments A1 and A2 are written is as follows:

	MARK
Summative Main Assessment A1	30
Summative Main Assessment A2	60
Essay FAS	10
FINAL MARK	100

If a student did not achieve a final mark of at least 50% after summative main assessment A2, the student may write summative main assessment A3. The **weight** of the final mark is then as follows:

	MARK
Summative Main Assessment A1	30
Essay FAS	10
Highest mark of Summative Main Assessment A2 or Summative Main Assessment A3	60
FINAL MARK	100

In this case where a student uses A3 as a supplementary assessment to pass a **maximum final mark** of 50% can be obtained.

If a student missed summative main assessment A1, such a student may write summative main assessment A2. The student must then also write summative main assessment A3 that will then replace summative main assessment A1 that the student missed.

The **weights** of the main assessments in the calculation of the final mark if summative main assessment A1 is not written, but summative main assessments A2 and A3 are written are as follows:

	MARK
Essay FAS	10
Summative Main Assessment A2	60
Summative Main Assessment A3 (this replaces Summative Main Assessment A1 that was missed)	30
FINAL MARK	100

*In this case a student will **not** be entitled to any further assessment opportunities.*

If a student wrote summative main assessment A1, but missed summative main assessment A2 the student may write summative main assessment A3.

The **weights** of the main assessments in the calculation of the final mark if summative main assessment A1 and the summative main assessments A3 are written are as follows:

	MARK
Summative Main Assessment A1	30
Essay FAS	10
Summative Main Assessment A3	60
FINAL MARK	100

In this case a student will **not** be entitled to any further assessment opportunities.

NB: If a student missed two summative main assessment opportunities (irrespective of the reason) you cannot pass the course, because no student can pass on the grounds of only one main assessment opportunity.

Contents of assessment opportunities will be announced in class and will be available on SUNLearn.

7. **ASSESSMENT DATES**

	DATE
Summative Main Assessment A1	Monday 15 April
Summative Main Assessment A2	Thursday 23 May
Summative Main Assessment A3	Thursday 13 June

8. **LECTURES:**

This course consists of 22 lectures. The prescribed material will not be covered in detail in the lectures. PowerPoint slides and/or transparencies will only give the **main points**, and are **not complete notes**. Therefore it is important that you attend classes and take down class notes. It is also advisable to try to read through the relevant literature before a specific lecture. Prepare long enough before evaluations and come and see your lecturer if you have problems.

Lectures commence on 4 February (Group 1) and 5 February (Group 2) and will end on 28 March (Group 1) and 29 March (Group 2).

9. **WORK PROGRAMME**

General: Assume you are familiar with basic derivatives, know the rules of derivatives and can apply it in practical examples.

Certain sections that are covered have been done in Economics I 14. As indicated in the work programme, it will be discussed in the tutorials and in class it will be assumed that you are familiar with it.

SECTION I: INTRODUCTION

9.1 **BASIC CONCEPTS OF DEMAND AND SUPPLY**

Chapters 1 & 2 [Only an overview will be given - Selfstudy]

Scarcity problem

Key issues

Cost benefit analysis

Implicit costs

Sunk costs

Proportions vs percentages

Marginal/average distinction

Positive and normative questions

Micro and macroeconomics

Factors of production

Labour specialisation

Economic systems

Production possibility curve

Demand

Determinants

Supply

Determinants

Market equilibrium

Consumer and producer

surplus

Price regulation

Floor and ceiling prices

Incidence of a tax

9.2 **BASIC MATHEMATICAL CONCEPTS**

Derivatives and their applications

SECTION 2: THE THEORY OF CONSUMER CHOICE

9.3 RATIONAL CONSUMER CHOICE

Indifference curve analysis

Consumer preferences

Underlying assumptions

Indifference curves

Cardinal and ordinal utility

Assumptions and

properties

Special cases

Marginal rate of substitution (MRS)

Slope indifference curve

Decreasing

Meaning

Budget restriction

Budget line

Meaning

Slope

Effect of change in income

Effect of change in prices

Kinked budget lines

Consumer equilibrium

Why is that equilibrium

Slope budget line = slope indifference curve

Increase/decrease in price

Increase/decrease in income

Corner solutions

Why corner solution

Practical applications

Trust fund, food coupons, drinks

Marginal utility

Chapter 3

9.4 INDIVIDUAL AND MARKET DEMAND

Price changes and derivation of demand curve

Look how price changes influence equilibrium

Price-consumption curve

Individual demand curve

Income changes and derivation of the Engel curve

Look how a change in income influences equilibrium

Income-consumption curve

Engel curve

Normal and inferior goods

Income and substitution effect

Price increase and decrease

Normal good

Inferior good

Giffen good

Market demand curve

Horizontal summation of individual demand curves

Chapter 4; page 93-110

Price elasticity of demand

Calculation

Interpretation

Elasticity and total income

Determinants

Income elasticity of demand

Calculation

Application

Energy tax with tax rebate

Cross-price elasticity of demand

Calculation

Chapter 4; page 110-127

Network Externalities

Other consumers influence consumption patterns of a consumer
Positive - Bandwagon effect

Negative - Snob effect

Chapter 4; page 127-130

Intertemporal consumption bundles

Budget constraint

Indifference curves

Optimal intertemporal solution

Chapter 4; page 130-135

SECTION 3: THE THEORY OF THE FIRM AND MARKET STRUCTURES

9.5 PRODUCTION

Intermediate products

Fixed and variable inputs

Short run [*Revision of the short run will be done in tutorial 1.*]

Only one input can change

Production with one variable input

Total product (TP)

Average product (AP)

Marginal product (MP)

Relationship between above-mentioned three curves

Law of diminishing marginal returns

Practical applications

Chapter 7; page 195-209

Long run

All inputs can change

Production with two variable inputs

Isoquants

Definition and shape

Technical efficiency

Special cases

Slope is marginal rate of technical substitution (MRTS)

Returns to scale

Increasing

Constant

Decreasing

Chapter 7; page 210-218

9.6 COSTS

Cost of production

Short run [*Revision of the short run is done in tutorial 2.*]

Fixed costs (FC)

Variable costs (VC)

Cost curves

Total cost (TC) [=TFC + TVC]

Average fixed costs (AFC)

Average variable costs (AVC)

Average cost (ATC)

Marginal cost (MC)

Optimum production

MC all production units the same

Relationship MP, AP, MC and AVC

Chapter 8; page 225-238

Long run

Isocost curves

Slope

Isoquants

Technical efficiency

Optimum production levels

Slope isoquant = slope isocost

curve Economic efficiency

Applications

Expansion path

Short run with restrictions

Long run

Derive LAC curve

Economies and diseconomies of scale

Learning curve

Old vs new firms

Difference between learning curve and economies of scale

Chapter 8; page 238-251

9.7 PERFECT COMPETITION

Goal profit maximization [*This section up to page 266 will be covered in tutorial 2.*]

Other goals

Assumption

Total cost (TC) and total income (TR) curves

Profit maximization

Relationship industry and individual firm

Marginal analysis (MC and MR)

Optimise profits

Shutdown point

$P = \min AVC$

Chapter 9; page 257-266

Short run supply

Market supply curve horizontal summation individual supply curves

Profit maximisation

Economic profits/losses

Individual firm supply curve

Breakeven point – normal profits, but zero economic profits

Producer surplus

Difference between market price and price willing to sell

for Individual firm

Market

Consumer surplus

Chapter 9; page 266-274

Long run

Supply

Profit maximisation

Long run competitive equilibrium

Firm vs industry

Long run supply curve

Constant cost industry

Increasing cost industry

Decreasing cost industry

Increase in demand and effect on long run industry supply curve

Decrease in demand and effect on long run industry supply curve

Elasticity of supply

Applications

Chapter 9; page 274-288

9.8 **MONOPOLY** [This section up to page 312 will be covered in tutorial 3.]

What is a monopoly

Sources of monopoly

Profit maximizing monopolist

Total income

Total cost

Profit = TR - TC

Elasticity and profit maximizing

Average income/demand curve

Marginal income

Average cost

Marginal cost

Profit maximization

Marginal principles

Can influence market prices

Optimal 'mark-up'

Measuring monopoly power

Monopolist's shutdown condition

Chapter 10; page 295-312

Pricing with market power

Consumer surplus

Reservation price

Reaping of consumer surplus

First-degree price discrimination

Perfect and imperfect price discrimination

Second degree price discrimination

Based on volumes

Third degree price discrimination

Split market into two

Rush hour price policy

Hurdle model

Chapter 10; page 312-321

Monopoly

Deadweight loss with the aid of consumer / producer surplus approach

Natural monopoly

State

ownership

Regulation

Price at level of perfect competition

Price at minimum average cost

Exclusive contracting

Enforcement antitrust laws

Laissez-faire policy

Chapter 10; page 321-330

9.9 IMPERFECT COMPETITION: A GAME THEORETICAL APPROACH

Oligopoly

Cournot

model

Competitor keeps output the same

Reaction curves

Profit maximizing

Bertrand model

Competitor keeps prices the same

Equilibrium

Stackelberg model

Price leadership

Chapter 11; page 337-346

Price rigidity

Kinked demand curve

Equilibrium if costs change

Price leadership of dominant firm

Determination of market price

Who supplies what in the market

Practical applications

Chapter 11; page 346-352

Monopolistic competition

Chamberlain model

Characteristics

Equilibrium

Short run

Long run

Monopolistic competition vs perfect competition

Practical applications

*Chapter 11; page 352-356***Game theory**

Dominant strategy

Nash equilibrium

Maximin strategy

Sequential games

*Chapter 11; page 356-367***Applications***Chapter 11; page 367-376***SECTION 4: FACTOR MARKETS****9.10 LABOUR**

Competitive markets

Derived demand

 VMP_L

Imperfect market

 MRP_L

Supply curve of labour

Equilibrium

Income and substitution effects of change in wages

Monopsony

Average factor cost (AFC)

Total factor cost (TFC)

Marginal factor cost (MFC)

Optimum strategy

Chapter 12; page 383-400

Minimum wages
 Labour unions
 Monopoly power and wages
 Labour market discrimination
 Statistical discrimination
 Internal wage structure
 Winner-take-all
Chapter 12; page 400-413

SECTION 5: EXTERNALITIES, PUBLIC GOODS AND WELFARE

9.11 GENERAL EQUILIBRIUM AND MARKET EFFICIENCY

Partial analysis
 Always done
 General equilibrium analysis
 Build in time dimension
 Interdependence between different markets
 Pareto efficient allocation of resources (simple exchange economy without production) Edgeworth exchange box
 Pareto optimal allocation
 Contract curve
 Competitive equilibrium in consumption
 Pareto efficient allocation of resources (with production)
 Efficiency in production
 Efficient combination goods and services

 Production possibility frontier (PPC)
 Marginal rate of transformation (MRT)
 Slope PPC
 General competitive equilibrium
 Consumers and producers
 $MRT = MRS$
 Sources of inefficiency
Chapter 16; page 495-513