**Background pattern

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**Department of Economics**



**Microeconomics**

**(12084 - 214)**



**Work Programme**

**2022**

Updated: 11 February 2022

Lecturer: Prof A P de Villiers: [apdv@sun.ac.za](mailto:apdv@sun.ac.za)

Tutors: Prof A P de Villiers

Dr E Moses: [eldridge@sun.ac.za](mailto:eldridge@sun.ac.za)

Internal moderator: Prof RCC Jafta

**BASIC INFORMATION \***

1. **MODULE PREREQUISITES**

Prerequisite pass module: Economics 114

Prerequisite pass module: Economics 144

**2. MODULE 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.

###### **LANGUAGE OF INSTRUCTION**

Economics 214 is presented according to the language option indicated in the faculty’s language policy.

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.

**4. LECTURER:**

Prof AP de Villiers

CGW Schumann-building, room 502

Tel. 021-808 2206

E-mail: apdv@sun.ac.za

\* ***Complete information about administrative rulings and assessment of this module is outlined in a separate document on SUNLearn.***

1. **GROUP ALLOCATION**

**Formal lectures:**

|  |  |  |  |
| --- | --- | --- | --- |
| **GROUPS** | **DAY** | **PERIOD** | **BUILDING AND VENUE** |
| Gr 1 | Monday  Tuesday  Thursday | 15:00  12:00  14:00 | MathsSc/IndPsych 1005  MathsSc/IndPsych 1005  MathsSc/IndPsych 1005 |
| Gr 2 | Tuesday  Wednesday  Friday | 09:00  11:00  12:00 | MathsSc/IndPsych 1005  MathsSc/IndPsych 1005  MathsSc/IndPsych 1005 |

Please check SUNLearn for further guidelines regarding the mode of lectures (face-to-face and/or online).

The attendance of all synchronous activities are compulsory.

**Tutorial periods:**

|  |  |  |  |
| --- | --- | --- | --- |
| **LANGUAGE OF INSTRUCTION** | **DAY** | **PERIOD** | **BUILDING AND VENUE** |
| Afrikaans | Wednesday | 13:00 | CGW Schumann 104 |
| English | Thursday | 13:00 | CGW Schumann 104 |
| English | Friday | 14:00 | CGW Schumann 104 |

**6. 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.

# 7. SUNLearn

SUNLearn is an integral part of this module and should be consulted regularly for resources, communication (including marks) and learning activities.

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**8. CONSULTATION TIMES**

Send an e-mail to your lecturer to make an appointment or you can also do it right after class.

# FLEXIBLE ASSESSMENT

Economics 214 makes use of summative and formative assessment. Summative assessment compiles out of main assessment A1; main assessment A2 as well as a main assessment A3. There is also a further assessment opportunity FA (essay) that will be taken into consideration when compiling the final mark.

Formative assessment is not used in the calculation of the final mark and in 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 12:00. 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. A student can pass the module if the requirements are not met by achieving a mark of 60% or above in A2 or A3.

Students have to write at least **two** of the three main assessment opportunities. Further summative assessment (FAS) is done with the aid of an essay.

**The weights of the main assessment 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 weights of the final mark are then as follows:**

|  |  |
| --- | --- |
|  | **MARK** |
| Summative Main Assessment A1 | 30 |
| Essay FAS | 10 |
| Summative Main Assessment A2 | 60 |
| Summative Main Assessment A3 | 60 |
| FINAL MARK | 160 |

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.

**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 | 60 |
| FINAL MARK | 130 |

*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.**

1. **ASSESSMENT DATES**

|  |  |
| --- | --- |
|  | **DATE** |
| Summative Main Assessment A1 | Friday 29 April |
| Summative Main Assessment A2 | Tuesday 31 May |
| Summative Main Assessment A3 | Monday 20 June |

**11. LECTURES:**

This course consists of 21 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 14 February (Group 1) and 15 February (Group 2) and will end on 31 March (Group 1) and 1 April (Group 2). Monday 21 March is Human Rights Day and we follow a Monday's timetable on Friday 25 March.

**12. 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 114. 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 1: INTRODUCTION**

**12.1 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

**12.2 BASIC MATHEMATICAL CONCEPTS**

Derivatives and their applications

**SECTION 2: THE THEORY OF CONSUMER CHOICE**

**12.3 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*

**12.4 INDIVIDUAL AND MARKET DEMAND**

Price changes and derivation of individual demand curve

How price changes influence equilibrium

Price-consumption curve

Individual demand curve

Income changes and derivation of the Engel curve

How changes in income influence 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**

**12.5 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*

**12.6 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*

**12.7 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

Price elasticity of supply

Applications

*Chapter 9; page 274-288*

**12.8 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*

**12.9 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**

**12.10 LABOUR**

Competitive markets

Derived demand

VMPL

Imperfect market

MRPL

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**

**12.11 GENERAL EQUILIBRIUM AND MARKET EFFICIENCY**

Partial analysis

As we have 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*