

# *University College of the Cayman Islands*

## **ASSOCIATE DEGREE SYLLABUS**

**COURSE NAME: PRINCIPLES OF MICROECONOMICS      COURSE #: ECO 221**

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### **COURSE DESCRIPTION**

The purpose of this course is to provide students with an understanding of the economics of markets and market economies. Concepts of demand, supply, production, prices, allocation of resources and market failure will be studied.

**Credits: 3**

**Prerequisite: NONE**

### **COURSE OBJECTIVES**

1. To be able to demonstrate knowledge and understanding in relation to:
  - a) The vocabulary of economics.
  - b) The main concepts, principles and generalizations employed within the field of economics and the major economic theories held in relation the allocation mechanism in a market economy.
2. To be able to demonstrate analytical skills through the ability to:
  - a) Interpret economic information presented in a variety of formats.
  - a) organize and present economic ideas and statements in a clear, logical and appropriate form.
  - b) Use economic modeling for analyzing economic problems.
  - c) Make valid inferences from material presented.
  - d) Evaluate the reliability and accuracy of material.
3. To be able to demonstrate skills of judgment and decision making by being able to:
  - a) Distinguish between evidence and opinion and make reasoned judgments.
  - b) Recognize unstated assumptions.
  - c) Examine the implications of a hypothesis.
  - d) Evaluate the accuracy and reliability of data.
  - e) Detect logical fallacies in arguments.
  - f) Check that conclusions are consistent with given information and discriminate between alternative explanations.

### **COURSE OUTLINE**

- I The Central Problem of Economics**  
Economic systems – recent developments  
Eastern Bloc; Scandinavian Economies  
Case study approach
- II Theory of Demand**  
The shape of the demand curve  
Utility analysis - the Law of diminishing marginal utility  
Deriving the individual demand curve  
Deriving the market demand curve  
Identifying consumer surplus  
Indifference curve analysis  
Budget lines  
Marginal rate of substitution  
Income and substitution effects  
Types of goods: normal, inferior, superior, giffen  
Distinguishing between shifts and movements of the demand curve  
Core review: determinants of demand  
AR and MR relationships for the normal demand curve
- III The Theory of Supply**  
Core review: fixed, variable and average cost  
Introduce the concept of the marginal cost  
Deriving the individual supply curve – marginal cost  
The law of variable proportions  
Core review: Economies of scale  
Identification of producer surplus  
Deriving the market supply curve  
Distinguishing between shifts and movements of the supply curve  
Demand and supply functions
- IV Equilibrium**  
Identification of excess demand and supply  
Application of shifts and movements using sequential changes  
Case study approach to consolidate
- V Elasticity**  
Core review: ped, pes  
Point elasticity  
Arc elasticity  
Income elasticity of supply and demand  
Cross elasticity of supply and demand  
Core review: substitutes and complements  
Application of elasticity  
Usefulness for Govt's and businesses  
Implications for elasticity of the imposition of taxes and subsidies
- VI Efficient Resource Allocation**

Pareto optimality  
Concept of productive and allocative efficiency  
Choice and the PPC

**VII Cost Benefit Analysis**

Calculation of net present value

**VIII Welfare Economics**

Externalities  
Classification of goods: free, private, public, merit  
Green economies

**IX Price Output and Determination**

Concepts of normal and abnormal profit  
Profit maximization  
Break even analysis – contrast between the Economist and the Accountant

**X Market Structures**

Perfect competition: characteristics  
Equilibrium of the firm: short and long run analysis  
Drawing the AR and MR  
Deriving the MC and the AC  
Identification of the profit/loss using diagrams  
Efficiency  
Monopoly: characteristics  
Private and public monopoly  
Origins of monopoly  
Barriers to entry and exit  
Equilibrium of the firm: short and long run analysis  
Drawing the AR and MR  
Identification of the profit/loss using diagrams  
Efficiency  
Price discrimination  
Conditions  
Domestic examples: utilities  
Off peak pricing and preferential pricing

**XI Oligopoly**

Characteristics  
The kinked demand curve  
Game theory  
Identifying price and output  
Perfect and imperfect oligopoly  
Identification of profit levels  
Monopolistic competition  
Characteristics  
Price and output determination  
Identification of profit levels  
How do firms compete in practice

Non price competition  
Product differentiation  
Branding

**XII Alternatives to Profit maximization**

Managerial and behavioural objectives  
Sales maximization  
Total revenue maximization  
Marginal cost pricing  
Average revenue pricing

**XIII Theory of Distribution**

The factors of production  
Rewards to factors  
Factor price determination in a market economy  
Marginal revenue and AR productivity as a basis for factor demand  
Transfer earnings and economic rent

**XIV Wages**

Opportunity cost of leisure  
Backward bending supply curve  
Income and substitution effects  
Influences on the demand and supply of labour  
The role of trade unions, barriers to entry, introduce the concept of monopsony  
Elasticity of demand and supply

**XV Interest**

Difficulties in the concept of capital  
The structure of interest rates  
Loanable funds theory and liquidity preference theory (in brief)  
Interest rate determination in practice  
External influences (in brief)

**XVI Rent**

Supply factors peculiar to land  
Economic rent, quasi economic rent and transfer prices  
Elasticity of supply

**XVII Profit**

Functions of profit  
Normal profit as transfer earnings

**ASSESSMENT**

Course Assignments/Project	-	30%
Mid-Semester Examination	-	10%
Final Examination	-	60%

**Total**

**100%**

**REQUIRED TEXT**

The following textbook(s) will be used for this course:

1. **Lipsey/Chrystal**, *Principles of Economics*, Oxford University Press