

FIRST SEMESTER CORE

ECO-RC-1016: Principles of Microeconomics–I

Course Description

This course intends to expose the student to the basic principles in Microeconomic Theory and illustrate with applications.

Course Outline

1. Introduction

Problem of scarcity and choice: scarcity, choice and opportunity cost; production possibility frontier; economic systems.

Demand and supply: law of demand, determinants of demand, shifts of demand versus movements along a demand curve, market demand, law of supply, determinants of supply, shifts of supply versus movements along a supply curve, market supply, market equilibrium.

Applications of demand and supply: price rationing, price floors, consumer surplus, producersurplus.

Elasticity: price elasticity of demand, calculating elasticity, determinants of price elasticity, otherelasticities.

2. Consumer Theory

Budget constraint, concept of utility, diminishing marginal utility, Diamond-water paradox, income and substitution effects; consumer choice: indifference curves, derivation of demand curve from indifference curve and budget constraint.

3. Production and Costs

Production: behavior of profit maximizing firms, production process, production functions, law of variable proportions, choice of technology, isoquant and isocost lines, cost minimizing equilibriumcondition.

Costs: costs in the short run, costs in the long run, revenue and profit maximizations, minimizing losses, short run industry supply curve, economies and diseconomies of scale, long runadjustments.

4. Perfect Competition

Assumptions: theory of a firm under perfect competition, demand and revenue; equilibrium of the firm in the short run and long run; long run industry supply curve: increasing, decreasing and constant costindustries.

Welfare: allocative efficiency under perfectcompetition.

Readings:

Case, Karl E. & Ray C. Fair, *Principles of Economics*, Pearson Education, Inc., 8^t

