

# **FIRST SEMESTER GE**

## **ECO-HG-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**

- a. Problem of scarcity and choice: scarcity, choice and opportunity cost; production possibility frontier; economic systems.
- b. 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.
- c. Applications of demand and supply: price rationing, price floors, consumer surplus, producer surplus.
- d. Elasticity: price elasticity of demand, calculating elasticity, determinants of price elasticity, other elasticities.

#### **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**

- a. Production: behavior of profit maximizing firms, production process, production functions, law of variable proportions, choice of technology, isoquant and isocost lines, cost minimizing equilibrium condition.
- b. 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 run adjustments.

#### **4. Perfect Competition**

- a. 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 cost industries.
- b. Welfare: allocative efficiency under perfect competition.

### **Readings:**

Case, Karl E. & Ray C. Fair, *Principles of Economics*, Pearson Education, Inc., 8<sup>th</sup> edition, 2007.

