ECO - 201 : Microeconomics

Course Objectives
This module aims to develop students’ understanding of the microeconomic concepts and theories in order to enhance their skill in analyzing business opportunities, market and risks.

Contents

Detailed Course
Unit 1: Introduction to Microeconomics LH 3
Meaning, Scope, Types, Uses

Unit 2: Theory of Demand and Supply LH 6
Demand function
  § Meaning and types
  § Movement along a demand curve and shifts in demand curve
Supply Function
  § Meaning and types
  § Movement along a supply curve and shifts in supply curve
Concept of Elasticity of demand and supply
  § Price elasticity of demand: degrees, measurement (percentage, total outlay, point and arc methods), uses in business decision making.
  § Income elasticity of demand: degrees, measurement (percentage, arc and point methods)
  § Cross elasticity of demand: types, measurement (percentage and arc methods)
  § Price elasticity of supply: degrees, measurement (percentage, point and arc methods)

Measurement of elasticity

Unit 3: Theory of Consumer’s Behaviour LH 8
Cardinal vs ordinal utility
Indifference curve analysis
  § Meaning, assumptions and properties
  § Principle of MRS
  § Consumer’s equilibrium
§ Price effect – derivation of PCC and demand curves for normal goods (substitutes and complements)
§ Income effect – derivation of ICC and Engel curves for normal goods and inferior goods
§ Substitution effect – Hicksian approach
§ Decomposition of price effect into income and substitution effects – Hicksian approach
§ Applications – tax and subsidy, income leisure choice of workers

**Computations and Numerical assignments**

**Unit 4: Theory of Production**

Concept of total, average and marginal product
Production function – meaning, types (short run and long run production function, Cobb-Douglas production function.
Law of variable proportions (explanation of three stages of production with reasons)
Isoquants
   § Meaning, assumptions and properties
   § Principle of marginal rate of technical substitution
   § Optimal employment of two inputs (or least cost combination of two inputs)
Laws of returns to scale
   § Explanation with table and diagram (using IQ)

**Computations and Numerical assignments**

**Unit 5: Cost and Revenue Curves**

Cost function
Various concepts of costs: opportunity cost, explicit and implicit costs, accounting and economic costs
Short run costs
   § Behaviour of short run total costs
   § Behaviour of average and marginal cost curves
   § Relation between AC and MC, TVC and MC and AC and AFC and AVC
Long run costs
   § Meaning
   § Derivation of U-shaped and L-shaped LAC with reasons
Revenue
   § Revenue under perfect competition
   § Revenue under imperfect competition
   § Relationship of Revenues (TR, AR and MR) with price elasticity of demand

**Computations and Numerical assignments**

**Unit 6: Theory of Product Pricing**

Profit maximisation and equilibrium of a firm
   § TR-TC approach (table and diagram)
   § MR-MC approach (table and diagram)
Equilibrium price and output determination under perfect competition
   § Meaning and characteristics
Derivation of short run supply curve of a firm
§ Short run equilibrium (firm and industry)
§ Long run equilibrium (firm and industry)

Equilibrium price and output determination under monopoly
§ Meaning and characteristics
§ Short run equilibrium
§ Long run equilibrium
§ Meaning and conditions of price discrimination
§ Degrees of price discrimination
§ Equilibrium of firm under third degree discrimination

Equilibrium price and output determination under monopolistic competition
§ Meaning and characteristics
§ Short run equilibrium
§ Long run equilibrium of a firm

Oligopoly
§ Meaning and characteristics

Computations and Numerical assignments

Unit 7: Theory of Factor Pricing

Rent
§ Concept of economic rent and its determination: modern theory of rent.

Wages
§ Marginal productivity theory of wages

Interest
§ Loanable funds theory of interest
§ Liquidity preference theory of interest

Profits
§ Dynamic theory of profits
§ Innovation theory of profits

Computations and Numerical assignments

References
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Dwibedi DN (2003), Microeconomics Theory and Applications, Delhi, Pearson Education Pvt. Ltd.
Dwibedi DN (2010), Microeconomics Theory and Practice, New Delhi, Tata McGraw Hill.
Koutsoyianis, A (1979), Modern Microeconomics, London, Macmillan