ECONOMICS 4010
Spring 2020
www.economics.utah.edu/lozada

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COURSE DESCRIPTION: We will study neoclassical principles of resource allocation. Topics include the theory of consumer choice, the theory of the firm, introduction to general equilibrium and welfare economics, and the theory of market structures. The prerequisites for this course are Econ. 2010, 2020, and 3620, or their equivalents. This class is designated as “Quantitative Intensive” (“QI”) for the purposes of fulfilling the university’s QI requirement.

CLASS MEETING TIME & PLACE: TTh 10:45am–12:05pm, BuC 208.

TEXT: Intermediate Microeconomics and Its Application. You may use either:

- the 9th edition, by Walter Nicholson, ISBN 0324171633; or
- the 10th edition, by Walter Nicholson and Christopher M. Snyder, ISBN 0324319681; or

We will not use the computer disk which may be included with the book. In my opinion, for the purposes of this class, older editions are just as good as the newest edition. The earlier editions are available at lower prices on the internet than the current edition. The bookstore has some copies of the textbook (it seems to be the 9th edition), but you can also buy the book from an online book seller.

Do not get Nicholson and Snyder’s other textbook, called “Microeconomic Theory: Basic Principles and Extensions.” That is a master’s level book. Just make sure the title of the book you buy has “Intermediate” as its first word.

In addition:

1. old exams from this class, answers to old exams,
2. answers to homework problems, and
3. a small packet of class handouts

can all be found by going to www.economics.utah.edu/lozada and clicking on “Econ. 4010.” However (1) and (2) can also be found on Canvas, and I have built a nice interface to (1) and (2) inside of each Canvas module, so you may only have to visit the www.economics.utah.edu/lozada web site once, to print out (3), the class handouts.

Your exams will come from the material in (1) and (2)—usually but not always unaltered—so it is very important that you study that material. As the semester goes on, I will keep you up to date on where you should be in studying this material. Before each exam, be sure you can thoroughly answer the questions covered in the material without looking at their answers.

Because of the availability of (1), (2) and (3), there are no additional “study guides” for this class.

GENERAL COURSE OBJECTIVES: The major objective is for you to fully understand the derivation of neoclassical demand and supply curves from first principles, understand market equilibrium, and understand the optimality (or lack thereof) of different types of market structures. A minor objective is for you to gain some familiarity with the most important critiques of neoclassical microeconomic theory. After all, as British economist Joan Robinson once wrote (Collected Economic Papers, 1980, Vol. 2 p. 17):

“The purpose of studying economics is not to acquire a set of ready-made answers to economic questions, but to learn how to avoid being deceived by economists.”

COURSE WORKLOAD: This is a 3 credit hour course. According to the University of Utah’s Policy 6-100 III Sec. C6, “at the University of Utah we assume that there is at least one hour in class and two hours outside of class per week [or the equivalent combination] connected to every credit hour” (brackets added). So you should expect to study for Econ. 4010 about 6 hours outside of class every week.

The reason most students find Intermediate Microeconomics the hardest economics class in the undergraduate curriculum is that this class stresses deep understanding of detailed, even mathematical, issues. In principle it would be possible for a student who did nothing but listen to my lectures to make an ‘A’ in this class, just like in principle a student could become a structural engineer after a 60-minute lecture on Newton’s three laws of motion, because the rest just logically follows. In practice, it takes very many hours, working problem after problem after problem, in order for most students
to realize what all the implications of the basic concepts are. Once you do that, you’ll realize that all you have to memorize are the basic principles, because you can construct an answer to any question just from those. In the same way, an experienced structural engineer realizes that all there is to making sure a bridge stands up is applying Newton’s Laws.

Another analogy is that my lectures about economics are like a swimming instructor’s lectures about how to swim. Lectures about how to swim are useful, but you do not learn how to swim unless you get in the water and do it—eventually, all by yourself. Lectures about economic theory are useful, but you do not learn economic theory unless you can open a set of problems and work them—eventually, all by yourself. You will be a dismal failure at swimming if you try to learn how to do it just by memorizing, and you will be a dismal failure at economic theory if you try to learn how to do it just by memorizing, too.

My exams have no multiple-choice questions. All the questions require you to compose a correct answer on a blank sheet of paper, using whatever graphs, equations, and words are appropriate and adequate. (The Canvas modules you will work through will, topic-by-topic, show you all the questions and answers from all of my old exams, but if you want to look at them right now to get an idea of what they are like, go to www.economics.utah.edu/lozada, click on the “Econ. 4010” link, then click on “Old Exam Questions and Their Answers.”) The instructions to my exams say, in part, that “correct answers which are unsupported by explanations will not be awarded points.” This means that even if a question does not explicitly tell you to “explain your answer,” you still have to explain your answer. Students often wonder how much explanation they should put in their answers. A rule of thumb is that you do not have to explain things you knew before you started taking this class. For example, you do not have to explain why \( x^2 = y + 1 \) would imply that \( x = \pm\sqrt{y + 1} \). On the other hand, you do have to explain everything you learned since you started taking this class. If you have any doubt about the adequacy of your answer during a test, just ask me during the test. That’s one of the things I am there for.

Here is an example. I asked this question on an exam:

Trapper Joe, the fur trader, has found that his production function in acquiring pelts is given by

\[
q = 2\sqrt{H}
\]

where \( q \) = the number of pelts acquired in a day and \( H \) = the number of hours Joe’s employees spend hunting and trapping in one day. Joe pays his employees $8 an hour.
Calculate Joe’s total cost curve (as a function of \( q \)).

A student wrote down “total cost is \( 2q^2 \).” This is the right answer, but it was completely unexplained, so the student did not get credit for it. He told me later he felt the answer was “obvious,” and so did not have to be explained. It was not obvious to most of his classmates (who got it wrong); is it obvious to you right now? (I suspect it was not even obvious to the student; he probably guessed the answer by working out a few test cases, and could not figure out the actual derivation.)

The nice thing about my way of grading is that you can get lots of partial credit for your response even if you cannot arrive at the right final answer. This can increase your grade significantly. In fact, you can get full credit on a problem even if its final answer is wrong, if I can see that what made your final answer wrong was that you made an inadvertent mistake about something you really do know (such as writing \( 4 \times 2 = 6 \)). This is another reason to show all your work.

MY BACKGROUND: My current rank is Associate Professor. I hold a BA degree in Economics and a BS degree in Physics, both from Louisiana State University. I hold an MS degree in Engineering-Economic Systems, an MA degree in Economics, and a PhD degree in Economics, all from Stanford University. My main area of research is the microeconomic theory of exhaustible resource industries. However, I have published work in other areas of dynamic economics, such as finance. I regularly teach microeconomic theory at the undergraduate and PhD levels, and resource and environmental economics at the introductory, advanced undergraduate, and advanced PhD levels. I have also taught Mathematical Economics at the PhD level.

OFFICE HOURS: 10:00am–10:30am TTh. You may also make an appointment to see me at a different time. In addition, you can stop by my office without an appointment at any time, and if I am not being pressured by other work, I will make time then to answer your questions.

EXAMS: There will be two exams during the semester and a final exam at the end of the semester. The approximate exam dates are given in the schedule. You should bring a blue book to exams, although it is also acceptable to bring blank sheets of paper. (If you do not know what a “blue book” is, see for example https://en.wikipedia.org/wiki/Examination_book.) You should bring sufficient writing instruments so that if they suffer some malfunctions you can still complete the exam. You may use a calculator, but only a simple one; it should not be able to graph or store text or formulas. You may use a ruler.
GRADING: Exams 1 and 2 will each be worth 25 points. The Final Exam will be comprehensive and will be worth 50 points. At the end of the semester, your course grade will be based on the sum of the grades you have made on the three exams. It will not be based on anything else: there is no way to do “extra work” at the end of the semester to earn “extra credit” to raise your grade. There is no such thing as “extra credit” in this class. To make this completely clear: if you ask me at the end of the semester if there is any extra work you can do to raise your grade, the answer is going to be no. The way to get a good grade is to study hard for the exams.

If you make above an 80% you are guaranteed to make an A−; if you make above a 55% you are guaranteed to make at least a B−; if you make above a 40% you are guaranteed to make at least a C−; and if you make above a 20% you are guaranteed to make at least a D−. However, if the following curve results in a higher grade for you then I will use it (approximately): 15%, A/A−; 30%, B; 35%, C; 15%, D; 5% or less, E.

In a recent past semester, the 35 students who took 4010 generated the following distribution out of 100 points possible:

- 3 students scored between 81 and 100
- 6 scored between 61 and 80
- 10 scored between 41 and 60
- 10 scored between 21 and 40
- 6 scored between 0 and 20

The high score in that class was 97 out of 100; the low score (among students who took all three exams) was 4 out of 100.

POLICIES:

1. Cheating on exams and other forms of academic dishonesty may lead to expulsion from the class, failure of the class, or more severe penalties such as dismissal from the University. In accordance with University regulations (University Policy 6-400, Section V, B, 4, at http://regulations.utah.edu/academics/6-400.php, if you are caught cheating in this class, I must send a letter to your dean about that, and the letter will be put in your permanent University file. I have done this for several students already. I punish cheating quite severely. For example, not long ago one of my 4010 students cheated on the final exam. It was
supposed to be this student’s last semester and the student expected to graduate the next week, but because of the cheating, the student failed 4010 and was unable to graduate that semester (as well as getting the letter about cheating entered into their permanent file).

2. You cannot miss an exam and take a makeup exam unless I give you permission to do so. Without my permission, you will earn a zero on any exams which you miss.

To get my permission to take a makeup exam, you must give me notice before the class takes its exam (if at all possible), and before you take the makeup exam, you must supply written evidence (“documentation”) of your reason for missing the in-class exam. If the reason is illness, a note from a doctor will be sufficient. I will let you know if I think your reason is good enough to warrant letting you take a makeup exam. If your reason is that you are participating in a university-sponsored activity, I will always allow you to take a makeup. Otherwise, I will make the decision on a case-by-case basis.

In addition, there are limited circumstances in which I may let you take an exam early.

I will only give a makeup final if:

(a) You are very ill. You must be under a physician’s care for this condition, and you must supply a note from your physician stating that it is his/her opinion that you were too ill to take the exam at its regularly scheduled time.

(b) An immediate family member is very ill or has recently passed away and you have a very good reason why this prevents you from attending the final. I will be the judge of whether your reason is good enough. I will require a note from your family member’s physician verifying your story about the illness.

If you had a last-minute automobile breakdown or other transportation failure, I expect you to get to the final as quickly as you can and take it then. In such a situation, I may or may not extend your time to finish the exam.

3. Incompletes will be given only for reasons of illness or a family emergency. You must supply written evidence for the reason. According to university regulations (Policy 6-100 III G2 at http://regulations.utah.edu/academics/6-100.php, you must be passing the class at the time you get an incomplete.

4. All students are expected to maintain professional behavior in this class, according to the Student Code, available at http://regulations.utah.edu/acad...
mics/6-400.php. Students have specific rights as detailed in Section II of the Code. The Code also specifies proscribed conduct (Sections III and V) that involves cheating on tests, plagiarism, collusion, fraud, theft, etc. Students should read the Code carefully and know they are responsible for the content. Students have the right to appeal sanctions imposed under the Code to the Student Behavior Committee.

5. The University of Utah seeks to provide equal access to its programs, services and activities for people with disabilities. If you will need accommodations in the class, reasonable prior notice needs to be given to the Center for Disability & Access, 162 Union Building, 801-581-5020 (V/TDD), https://disability.utah.edu/. CDA will work with you and me to make arrangements for accommodations. All written information in this course can be made available in an alternative format with prior notification to the Center for Disability & Access.

6. Personal concerns such as stress, anxiety, relationship difficulties, depression, or cross-cultural differences can interfere with a student’s ability to succeed and thrive at the University of Utah. For helpful resources contact the University Counseling Center at 330 SSB (a temporary location), at https://counselingcenter.utah.edu, or at 801-581-6826. For after-hours emergencies, contact the 24/7 Crisis Line at 801-587-3000. For information on contacting a Student Success Advocate, see https://studentsuccess.utah.edu/advocates/our-mission-faqs/, and for links to more than a dozen other student support offices such as the Learning Center, the Dean of Students Office, and the Center for Ethnic Student Affairs, see https://studentsuccess.utah.edu/resources/student-support/.

7. Addressing Sexual Misconduct: if you or someone you know has been harassed or assaulted, you are encouraged to report it to the Title IX Coordinator in the Office of Equal Opportunity and Affirmative Action, 135 Park Building, 801-581-8365, or the Office of the Dean of Students, 270 Union Building, 801-581-7066. For support and confidential consultation, contact the Center for Student Wellness, 426 SSB, at www.wellness.utah.edu or 801-581-7776. To report to the police, contact the Department of Public Safety, 801-585-2677(COPS).

8. If you receive a notification to evacuate during this class either by the campus text alert system or by a building fire alarm, please proceed in an orderly fashion to the Emergency Assembly Point (“EAP”) marked “A5” near the center of the map below. If you are taking an exam when the evacuation order comes, immediately stop working on the exam and leave the exam, your answers to it, and any other exam material on your desk. If you cannot reach the A5 EAP, go to the A1 EAP;
CSBS EMERGENCY ACTION PLAN

BUILDING EVACUATION

EAP (Emergency Assembly Point) – When you receive a notification to evacuate the building either by campus text alert system or by building fire alarm, please follow your instructor in an orderly fashion to the EAP marked on the map below. Once everyone is at the EAP, you will receive further instructions from Emergency Management personnel. You can also look up the EAP for any building you may be in on campus at http://emergencymanagement.utah.edu/eap.

CAMPUS RESOURCES

U Heads Up App: There’s an app for that. Download the app on your smartphone at alert.utah.edu/headsup to access the following resources:

- **Emergency Response Guide:** Provides instructions on how to handle any type of emergency, such as earthquake, utility failure, fire, active shooter, etc. Flip charts with this information are also available around campus.

- **See Something, Say Something:** Report unsafe or hazardous conditions on campus. If you see a life threatening or emergency situation, please call 911!

Safety Escorts: For students who are on campus at night or past business hours and would like an escort to your car, please call 801-585-2677. You can call 24/7 and a security officer will be sent to walk with you or give you a ride to your desired on-campus location.
if you cannot reach it either, go to the A4 EAP. Once everyone is at the EAP, you will receive further instructions from Emergency Management personnel.

For further information about the Campus Alert System, including instructions to ensure your cell phone will receive emergency alerts, see http://www.alert.utah.edu. That web site has a link to a “Shots Fired” training video; to get to it, click on the “Active Shooter” link under http://alert.utah.edu/emergency-response-guide/).

TENTATIVE SCHEDULE:

While the following schedule is tentative, I will always give you at least one week’s notice of the exact date of your exams. In the schedule:

(12) text in parentheses, like this (), pertains to the 12th edition of the textbook;

{11} text in braces, like this {}, pertains to the 11th edition of the textbook;

[10] text in brackets, like this [], pertains to the 10th edition of the textbook; and

9 text not in parentheses, braces, or brackets pertains to the 9th edition.

If there are no parentheses, brackets, or braces, the numbering is the same as the 9th edition. The words in blue are hyperlinks to the relevant module in Canvas.

1/7, 1/9: A. Mathematics. Appendix to Chapter 1
1/13, 1/15: B. The Theory of Choice. Chapter 2
1/21, 1/23, 1/28: C. Changes in Income and Prices. Chapter 3
1/30, 2/4: D. Market Demand and Elasticity. Chapter 4{3}(3 but not section 3-9)
2/6, 2/11: E. The Technology of Production. Chapter 5[7]{6}(6)
2/13: Chapter 5[7]{6}(6)
2/18–2/20: Exam on demand (the chapters before 5[7]{6}(6); A/B/C/D in old exam packet)
2/18, 2/20, 2/25, 2/27, 3/3: G. Cost Functions. Chapter 6[8]{7}(7)
4/2–4/7: Exam on supply (Chapters 5/6/7 [7/8/9] {6/7/8} (6/7/8); F/G/H in old exam packet)
4/2, 4/7: **K. Monopoly.** Chapter 10, not 351 ff. [13, not 398ff.] {11, not 397ff.} (11, not 364ff.), rest of Chapter 7[9]{8}(9).


4/9: **L. Input Markets.** Chapter 13[15]{13}(13)

4/14, 4/16: **M. Dynamic Economics.** Chapter 14[16]{14}(14) & its appendix.


(section 10.7)

Thursday, April 23: comprehensive Final Exam from 10:30 am–12:30 pm

This syllabus is meant to serve as an outline and guide for our course. Please note that I may modify it with reasonable notice to you. I may also modify the Course Schedule to accommodate the needs of our class. Any changes will be announced in class.

Supplemental Information

COURSE OVERVIEW: We will first study how to sketch the graph of a function’s average and of its marginal. Next, neoclassical consumer theory (utility maximization subject to budget constraints). The middle part of the course is a very careful study of the neoclassical theory of the firm: total product curves (& their averages and marginals), total cost curves, both in the short run and in the long run (& their averages and marginals), total revenue curves (& their averages and marginals), and total profit curves (& their averages and marginals). After this comes single-market equilibrium (competitive and monopolistic), and an application to tax incidence. The course ends with an introduction to general equilibrium and welfare economics using the Edgeworth-Bowley Box.

SPECIFIC COURSE OBJECTIVES: In particular, students should learn to do the following.

1. Given only a sketch of the graph of a function $f(x)$, sketch the graph of its average and of its derivative (its “marginal”), as a function of $x$. Also, be able to do this even when the function ($f$) is not everywhere differentiable (so one can discuss income tax “brackets”).

2. Given only a sketch of the average and marginal of $f(x)$, sketch the graph of $f(x)$ itself.
3. Identify and construct convex and concave functions.

4. Draw indifference curves for monotonic and nonmonotonic preferences, and identify the Marginal Rate of Substitution of these curves.

5. Draw budget constraints (both linear and nonlinear) given an explicit or implicit algebraic description of them.

6. Having drawn both indifference curves and budget constraints, show the utility-maximizing point (both for interior and boundary maxima).

7. On such a graph, illustrate the effect of changes in prices or income (sketching income expansion paths, from there sketching Engel curves and identifying inferior and normal goods and the income effect; and sketching price-offer curves, and from there identifying complements, substitutes, Giffen goods, and the substitution effect). Apply this to lump sum versus ad valorem taxation.

8. Aggregate individual demand curves and calculate and interpret their own-, cross-, and price-elasticities.

9. Explain neoclassical production functions, draw their isoquants, and both derive and sketch their average product and marginal product curves. In this context, calculate returns to scale, demonstrate the Law of Diminishing Returns, and explain why returns to scale are unrelated to diminishing returns. Calculate Rate of Technical Substitution.

10. Explain capital aggregation problems and the importance of this critique for neoclassical production theory and for its non-neoclassical alternatives.

11. Derive the sketch of the total cost, average cost, and marginal cost functions, both in the short run (for the cases when diminishing returns begin immediately and when diminishing returns do not begin immediately) and in the long run (for the cases of increasing-, constant-, decreasing-, and first-increasing-and-then-decreasing returns to scale). In the short run, identify and graph total, average, and marginal fixed cost and total, average, and marginal variable cost.

12. Graphically derive the cost-minimizing point from a derivation of the firms’s isoquants and isocost curves.

13. Explain the idea of perfect competition.

14. Graph total revenue, average revenue, and marginal revenue curves for competitive firms.

15. Identify profit both on graphs of total revenue and total cost, and on graphs of average and marginal revenues and costs (both in the long run and in the short run). Identify the profit-maximizing level of output on these graphs.
16. Explain the implications of U-shaped average cost curves on existence of a competitive equilibrium.

17. Locate the incidences of a tax on a “supply and demand” diagram.

18. Explain and graph the profit-maximizing quantity for a monopolist. Contrast this with the competitive equilibrium. Also discuss the welfare consequences of monopoly, using consumer surplus, producer surplus, and social surplus.

19. For input markets, generate the total expense, average expense, and marginal expense curves; the marginal revenue product curve; and the profit-maximizing input demand. Do this both for competitive input markets and for monopsonists. Discuss the welfare consequences of monopsony, using rent and the social surplus going to input demanders.

20. Calculate the present discounted value of a cash flow and use it to make intertemporal decisions.

21. Draw and explain Edgeworth Boxes, then use them to analyze Pareto Optimality and the First Theorem of Welfare Economics. Explain the limitations of Pareto Optimality as a guide to policy.

22. Understand the caution that most attempts by U.S. textbooks to connect these topics to “real life” advance a particular ideological and political viewpoint, and because of the narrow assumptions required for the analyses taught in this class to be valid, most of those attempts are incorrect because the required technical assumptions fail to hold. Illustrate this with timely examples generated in collaboration with students.

INSTRUCTOR RESPONSIBILITIES:

You may find a description of my responsibilities at www.regulations.utah.edu/academics/6-316.html.