

DSC – I - PRINCIPLES OF MICROECONOMICS I

Course Description

This course is designed to expose the students to the basic principles of microeconomic theory. The emphasis will be on thinking like an economist and the course will illustrate how microeconomic concepts can be applied to analyze real-life situations.

Module 1: Exploring the subject matter of Economics

The Ten Principles of Economics: How people make decisions; Working of the economy as a whole; Thinking Like an Economist: The economist as Scientist – The scientific method: Observation, Theory and more observation; Role of assumptions; Economic Models; The economist as a policy advisor; Why economists disagree; Graphs in Economics

Module 2: Supply and Demand: How Markets Work, Markets and Welfare

The market forces of demand and supply – Markets and competition; The demand curve – Market vs individual demand curve; Shifts in demand curve; The supply curve – Market vs individual supply curve; Shifts in supply curve; Equilibrium between supply and demand and changes there in; Price elasticity of demand and its determinants; Computing price elasticity of demand; Income and cross elasticity of demand; The price elasticity of supply and its determinants; Computing price elasticity of supply; Consumer Surplus and Producer Surplus; Market efficiency and market failure.

Module 3: The Households

The Budget Constraint; Preferences – representing preferences with indifference curves; Properties of indifference curves; Two extreme examples of indifference curves; Optimisation – Equilibrium; Change in equilibrium due to changes in income, changes in price; Income and substitution effect; Derivation of demand curve; Three applications – Demand for giffen goods, wages and labour supply, Interest rate and household saving.

Module 4: The Firm and Market Structures

Cost concepts; Production and costs; The various measures of cost – Fixed and variable cost, average and marginal cost; Cost curves and their shapes; Costs in the

short run and in the long run; Economies and diseconomies of scale. Firms in competitive markets – What is a competitive market; Profit maximisation and the competitive firm's supply curve; The marginal cost curve and the firm's supply decision; Firm's short-run decision to shut down; Firm's long-run decision to exit or enter a market; The supply curve in a competitive market – short run and long run; Monopoly - Why monopolies arise and public policy towards monopolies

Module 5: The Input Markets

The demand for labour – The production function and the marginal product of labour; Value of the marginal product of labour and demand for labour; Shifts in labour demand curve; The supply of labour – the trade-off between work and leisure; Shifts in the labour supply curve; Equilibrium in the labour market; Other factors of production: Land and capital; Linkages among factors of production.

Readings:

1. Principles of Economics, Gregory N Mankiw, 6e Cengage Learning India Private Limited, New Delhi
2. William A McEachern and Simrit Kaur (2012): *Micro Econ: A South-Asian Perspective*, Cengage Learning India Private Limited, New Delhi.
3. Karl E. Case and Ray C. Fair (2007): *Principles of Economics*, 8th Edition, Pearson Education Inc.