

Fulbright Economics Teaching Program

Academic year 2017-2018
Fall Term

MICROECONOMICS FOR PUBLIC POLICY **(4 credits)**

Teaching Team

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Class Meetings

Monday, Wednesday, Friday: 10:15 – 11:45

Office Hours

	Monday	Tuesday	Wednesday	Thursday	Friday
Huỳnh Thế Du	16:30–17:30		16:30–17:30		16:30–17:30
Đặng Văn Thanh		17:00–18:30		17:00–18:30	
Lê Phan Ái Nhân		17:30–19:00		18:00–19:30	

Members of the teaching team are also available at other time by appointment.

Course Objectives and Learning Outcomes

This course aims at providing students with the ability to apply microeconomic concepts, principles, and tools in (i) understanding the nature of economic issues discussed in the public sphere; (ii) applying knowledge of microeconomics to conduct public policy analysis; and (iii) applying fundamental knowledge of microeconomics to other courses in the program; (iv) understanding the microeconomic principles underlying the economic reform toward market-oriented and open economy in Vietnam.

In addition to basic topics such as supply and demand, market equilibrium, consumer and producer, game theory, etc., the course also discusses important issues in public policy such as efficiency and equity, welfare analysis, and market failures. To some extent, social impacts of public policy are also discussed and compared to the standard economic arguments.

Course Description

With the purposes and contents mentioned above, the course is divided into seven parts:

Part one, “Introduction,” discusses some important principles of microeconomics such as people face opportunity cost or respond to incentives when they make economic choices. This part also familiarizes students with the economic way of thinking.

Part two, “How Markets Work,” introduces basic microeconomic concepts and tools such as supply and demand, price mechanism, market equilibrium, which are widely used in policy analysis.

Part three, “Consumer Theory,” studies how rational consumers behave under certainty. This part also studies how people make choices under uncertainty. This part ends with a wide range of theory applications to real-life problems.

Part four, “Producer Theory,” discusses the behavior of firm – the representative of the production sector. This part will discuss production theory, production cost theory, profit maximization objective, and derives the supply curves for individual firms and markets in perfectly competitive markets. This part will end with some beginning lessons regarding game theory.

Part five, “Market of production factors” analyzes input factors, specifically capital and labor. How labors make decision on work and working time given the opportunity costs from forgone jobs or leisure time. This part also talks about determinant factors of wage levels to labors and the role of productivity in improving labor’s income and living standards.

Part six, “Competitive Markets, Equity and Efficiency,” starts with an observation that outcomes of perfectly competitive market are economically efficient, but not equitable. It then goes on to discuss the trade-off between efficiency and equity, which is a key issue of microeconomics and is directly related to policy analysis.

Part seven, “Introduction to Market Failures and role of government,” discusses common market failures. In general, market may fail under following conditions: (i) monopolistic power, (ii) asymmetric information; (iii) irrational behavior; (iv) externalities (negative or positive); and (v) public goods. Some fundamental concepts of game theory will be introduced in this part.

Student requirements

Economics is an analytical and practical subject. Students cannot learn it by simple memorization, nor by cramming at the last minute. Therefore, during the course, *students should try to understand the concepts, principles and tools of microeconomics and develop the ability to apply them to solve many different problems in real life. This requires students to read textbook and required readings, lecture notes; complete assignments; follow discussions in the media with a critical eye and actively apply knowledge gained from the course to actual cases.*

The course is built on a close and consistent structure, in which *new concepts are built on the old ones and contents of the following chapters use knowledge of the previous.* It is therefore essential that students must continuously study and review the course material. Students are expected to attend class regularly, read the required readings carefully prior to class meeting, actively participate in class discussions, and complete assignments as required.

Text Books and Required Readings

There are two main and one complementary textbooks for this course:

1. *Microeconomics*, Eighth edition, by Robert S. Pindyck and Daniel L. Rubinfeld (referred to as **PR**), Pearson, 2014.
2. *Principles of Economics*, Sixth edition, by N. Gregory Mankiw (referred to as **Mankiw**), Cengage Learning, 2014.
3. *An Introduction to Behavioral Economics 2014* by Alain Samson [**AS**]
4. *Microeconomic for Public Decisions*, by Anne C. Steinemann, William C. Apgar, and H. James Brown (referred to as **SAB**), South-Western Publishers, 2005.

There are three types of reading: *required readings* are chapters in the textbooks and indicated in the syllabus. It is very important for students to complete the assigned readings **prior** to class discussion. During class discussion, teachers can invite any participant to explain a term or state his/her own view on issues discussed in the required readings.

Case studies are also required readings. Specific requirements for each case and the case itself will be distributed to students in advance.

The second is *readings for discussion*. These readings help inspire class discussion. The readings can be some articles (extracts from newspapers and mass media in Vietnam and other countries) or mini cases. Distribution of these readings will be either before or during class depending on their length.

The third type of reading include *in-depth or more advance materials* which are supposed to help students expand their understanding or know thoroughly on some selected policy issues or purely for providing the background of policy discussions. These readings are helpful to those who want to explore issues which are not discussed at length during the lectures due to time limitation. Students are encouraged to consult the teachers for additional references.

Problem sets

There will be six problem sets that help students review and apply important concepts and analytical tools discussed in the lectures and assigned readings into real-life issues. Students must complete these problem sets **by themselves** and submit their solutions before 8:20 AM on the due date. Students are **not allowed to copy** the answers to the problem sets from other students. Students should carefully review the *Student's Handbook* to avoid unnecessary violations.

Additionally, there will be *assignments on case studies*. The assignments will be distributed to students in advance, and they are asked to make short writings (about 750 words) to prepare for class discussions. The assignments will be handed in when the class finished for grading.

Sometimes, students will be required to do quizzes which usually last from 5 to 10 minutes at the beginning of the class. The purpose of the test is to examine their reading and understanding on lessons.

Applied Policy Memo

This 1000-word paper is for students to apply concepts, models and knowledge learned from the course into a real world or work related policy issue. It aims to help students learn to think like

an economist, and see how usefulness microeconomics can be in understanding real life issues, be it economic, political, social or cultural.

Grading:

The final grade will be based on the following weights:

- Class participation: 5%
- Policy application: 10%
- Case Study: 10%
- Problem sets & quizzes: 15%
- Mid-term exam: 30%
- Final exam: 30%

SYLLABUS AND SCHEDULE

Week	Mon	Wed	Fri
1	16/10 Opening Ceremony	18/10 Introduction Microeconomics and Public Policy PR, Ch.1; SAB, Ch.1 <i>Policy memo</i>	20/10 Introduction Important Principles of Microeconomics GM, Ch.1; PR, Ch. 1 <i>PS1 distributed</i>
2	23/10 How Markets Work Demand, Supply and Market Equilibrium PR, Ch.2; SAB, Ch.2&3 <i>Policy memo 1 due</i>	25/10 How Markets Work Elasticity and Its Applications PR, Ch.2; SAB, Ch.2	27/10 Case study 1 The Coffee Crisis <i>Case study 1 due</i>
3	30/10 Consumer Theory The Theory of Consumer Choice PR, Ch.3; SAB, Ch.4	1/11 Consumer Theory The Theory of Consumer Choice PR, Ch.3; SAB, Ch.4	3/11 Consumer Theory Individual and Market Demand PR, Ch.4 <i>PS1 due, PS2 distributed</i>
4	6/11 Consumer Theory Choices in Uncertainty	8/11 Consumer Theory Choice under Uncertainty	10/11 Review

Week	Mon	Wed	Fri
	PR, Ch.5	Lecture notes	
5	<p>13/11</p> <p>Consumer Theory Behaviorial Economics PR, Ch.5; AS, Phần 1</p>	<p>15/11</p> <p>Producer Theory Production PR, Ch.6; SAB, Ch.5</p>	<p>17/11</p> <p>Producer Theory The Cost of Production PR, Ch.7; SAB, Ch.5 <i>PS2 due, PS3 distributed</i></p>
6	<p>20/11</p> <p>Producer Theory Profit Maximization and Competitive Supply PR, Ch.8; SAB, Ch.5</p>	<p>22/11</p> <p>Competitive Markets and Welfare Economics Analysis of Competitive Markets PR, Ch.8; SAB, Ch.7</p>	<p>24/11</p> <p>Competitive Markets and Welfare Economics Analysis of Competitive Markets PR, Ch.9; SAB, Ch.7 <i>PS3 due</i></p>
7	READING WEEK		
8	<p>Wed, 6/12</p> <p>Mid-term Exam 08:30 –11:00</p>		
9	<p>11/12</p> <p>Introduction of the New firm theory Ronald Coase (1937). “The Nature of the Firm”</p>	<p>13/12</p> <p>Case study 2 Mobile Phone Services in Vietnam <i>Case study 2 due</i></p>	<p>15/12</p> <p>Factors of production Market of Factors PR, Ch.14, 15 <i>PS 4 distributed</i></p>
10	<p>18/12</p> <p>General Equilibrium, Equity and Efficiency PR, Ch.16; SAB, Ch.6</p>	<p>20/12</p> <p>Market Structure Valuation under Market Power PR, Ch.10&11; SAB, Ch.8</p>	<p>22/12</p> <p>Market Structure Monopolistic Competition and Oligopoly PR, Ch.12</p>

Week	Mon	Wed	Fri
11	25/12 Christmas	27/12 Game Theory (1) Lecture Notes	29/12 Game Theory (2) Lecture Notes PS4 due, PS5 distributed
12	1/1/2018 Tet Holiday	3/1 Market Failures Irrational Behaviors AS, Part 1	5/1 Case study 3 Powdered Milk Regulation in Vietnam Case 3 due
13	8/1 Market Failures Asymmetric Information PR, Ch.17; SAB, Ch.11	10/1 Case study 4 Market for Helmet in Vietnam Case 4 due	12/1 Market Failures Externalities PR, Ch.18 ; SAB, Ch.9 PS5 due, PS6 distributed
14	15/1 Case study 5 Dealing with traffic congestion in Hanoi and Ho Chi Minh City Case 5 due	17/1 Market Failures Public Goods PR, Ch.18 ; SAB, Ch.10	19/1 Case study 6 “BOT in Transport” PS6 due
15	Reading week, policy memo 2 due on 27/01/2018		
16	Mon, 29/1/2018 FINAL EXAM, 8:30 – 11:30		