

# **[Microeconomics 1]**

**[Module 1, AY 2017-2018]**

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## **Course information**

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**Course Website:** [my.nes.ru](http://my.nes.ru)

**Instructor's Office Hours:** by appointment

**Class Time:** TBA

**Room Number:** TBA

**TAs:** TBA

## **Course description**

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This is the first course in the sequence of microeconomics at NES; it is focused on consumer theory (how people choose what to consume, in contrast with e.g. how firms choose what to produce), where we will cover chapters 1 to 3 of the textbook (see below), roughly at the speed of one to two sections per class.

## **Course requirements, grading, and attendance policies**

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There will be 4 or 5 home assignments that count for 20% of the grade; final exam will count for 65% of the grade and class participation (including attendance) will count for 5% of the grade. For the other 10% of the grade, you will have to hand in an 'economic naturalist' assignment, as invented and described by Robert H. Frank (see his paper for detailed description and examples); the only twist is that it has to be based on a phenomenon you personally observe here in Russia (or the country where you come from). This paper can be written in either Russian or English and has to be no longer than 500 words. It is due at 10 pm on Sunday week 7.

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## Course contents

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The course will cover basic consumer theory. The topics include:

1. Introduction - why we need models.
2. Preferences and utility.
3. Utility and choice.
4. Income and substitution effects.
5. Complements and substitutes.
6. Uncertainty and information.

### Description of course methodology

While I will mostly be talking in the classroom, occasionally I will expect students to answer questions that I pose, for which it is helpful that you read a chapter ahead of what was covered last time. I do not use slides which means that you have to be in class to take notes. If you have to miss a class, you should ask your classmate(s) what was covered *before* the next class; believe me, it is more time efficient to attend than to recover what was covered.

A student is fined 500 rub if his/her phone goes off during class. This money is used to finance coffee/tea of my choice for the faculty lounge.

### Sample tasks for course evaluation

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Consider a consumer in a competitive economy with two commodities, poultry and beef. Before the spread of bird flu (in the first period,  $t = 1$ ), in the market place a unit of beef is needed to obtain a unit of poultry. At this price vector  $p_1$  the consumer demands a consumption bundle  $x_1$  containing three times as many units of poultry as units of beef. Assume now that after the spread of the bird flu (in the second period,  $t = 2$ ), the induced crisis in the agricultural sector triples the price of beef and at the same time reduces the price of poultry to a third (let  $p_2$  be the new price vector).

In this new situation assume that the consumer reduces her demand for poultry and increases her demand for beef so as to choose an allocation  $\bar{x}_2$  that is on her new budget constraint.

i. Is the consumer's behavior (the choice of  $x_1$  when prices are  $p_1$  and the choice of  $\bar{x}_2$  when prices are  $p_2$ ) consistent with the maximization of a quasi-concave utility function subject to the budget constraint? Explain your answer.

Alternatively assume that the consumer in period,  $t = 2$  increases her demand for poultry and decreases her demand for beef so as to choose an alternative allocation  $\hat{x}_2$  that is on her new budget constraint.

ii. Is this alternative consumer's behavior (the choice of  $x_1$  when prices are  $p_1$  and the choice of  $\hat{x}_2$  when prices are  $p_2$ ) consistent with the maximization of a quasi-concave utility function subject to the budget constraint? Explain your answer.

Finally assume that in period  $t = 1$  the consumption bundle chosen by the consumer  $\bar{x}_1$  is such that she consumes the same number of units of beef and poultry.

iii. Would your answer to questions (i) and (ii) above change if you replace the consumption bundle  $x_1$  with the consumption bundle  $\bar{x}_1$ ? Explain your answer.

## **Course materials**

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### **Required textbooks and materials**

The basic textbook for the class is *Microeconomic Theory* by Andreu Mas-Colell, Michael Whinston and Jerry Green. It is available from the library.

### **Additional materials**

While the textbook cannot be called too basic, I am sure some of you will feel compelled to study the subject in greater depth. Those who do are advised to supplement their reading with lecture notes by Ariel Rubinstein, available at his website (which I will also post on my.nes).

## **Academic integrity policy**

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Cheating, plagiarism, and any other violations of academic ethics at NES are not tolerated.