

MICROECONOMICS III

CLASS 1

Wiktor Budziński

ORGANIZATION

Course will be organized on the subpage of my website

<https://www.acep.uw.edu.pl/budzinski/microeconomics/>

- Lectures
- Problem sets
- Reading materials

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Office hours on Fridays at 10:30 am

- After confirmation via e-mail
- Could be online on other dates

ORGANIZATION

Class will consist of short lectures and solving of the problem sets

- Chapters recommended to be read before the class
- Varian Hal R. (2019), Intermediate Microeconomics: a modern approach
- Students' presentations at the end of the semester

Typically, more problems in problem sets than time for solving them in class – It is for your own work and preparation to the exam

This is a seminar-type class, so active participation of students is expected

- Ask questions
- Volunteer to solve problems

GRADING

25 points for active participation

- 5 short tests at the beginning of some classes (up to 3 points each)
 - Information about each test will be given a week prior
- Up to 2 points per class for active participation (max. 10 points)
 - Solving problems, asking questions, discussion

15 points for presentation + short essay

- About 7 min. presentation in 3 person groups
- Accompanied by the short essay with deepened discussion
- Presentations delivered at the last two classes
- More details will be given in two weeks

GRADING

60 points for the exam

- Single choice
- Joint for all groups

In order to pass the course, it is required to obtain at least 50% of the maximum exam score AND at least 50% of the maximum total score

Presence in class is obligatory. More than two absences without formal justification result in failing the course

ORGANIZATION

I teach three groups this semester on Fridays in room A101

- At 11:30 am
- At 1:15 pm
- At 3:00 pm

Attending any of the three groups I teach

- As long as there is space in the room
 - But groups are full in USOS, so this is unlikely. Proceed at your own risk
- Except for the day of your presentation – on this day, you need to attend your group according to USOS

LECTURE |

PARTIAL EQUILIBRIUM

Equality of demand and supply in the market of a single good or service

- We omit interrelationships between prices and quantities in different markets
- We will look at the general equilibrium in later classes

In majority of applied microeconomic research we study partial equilibria

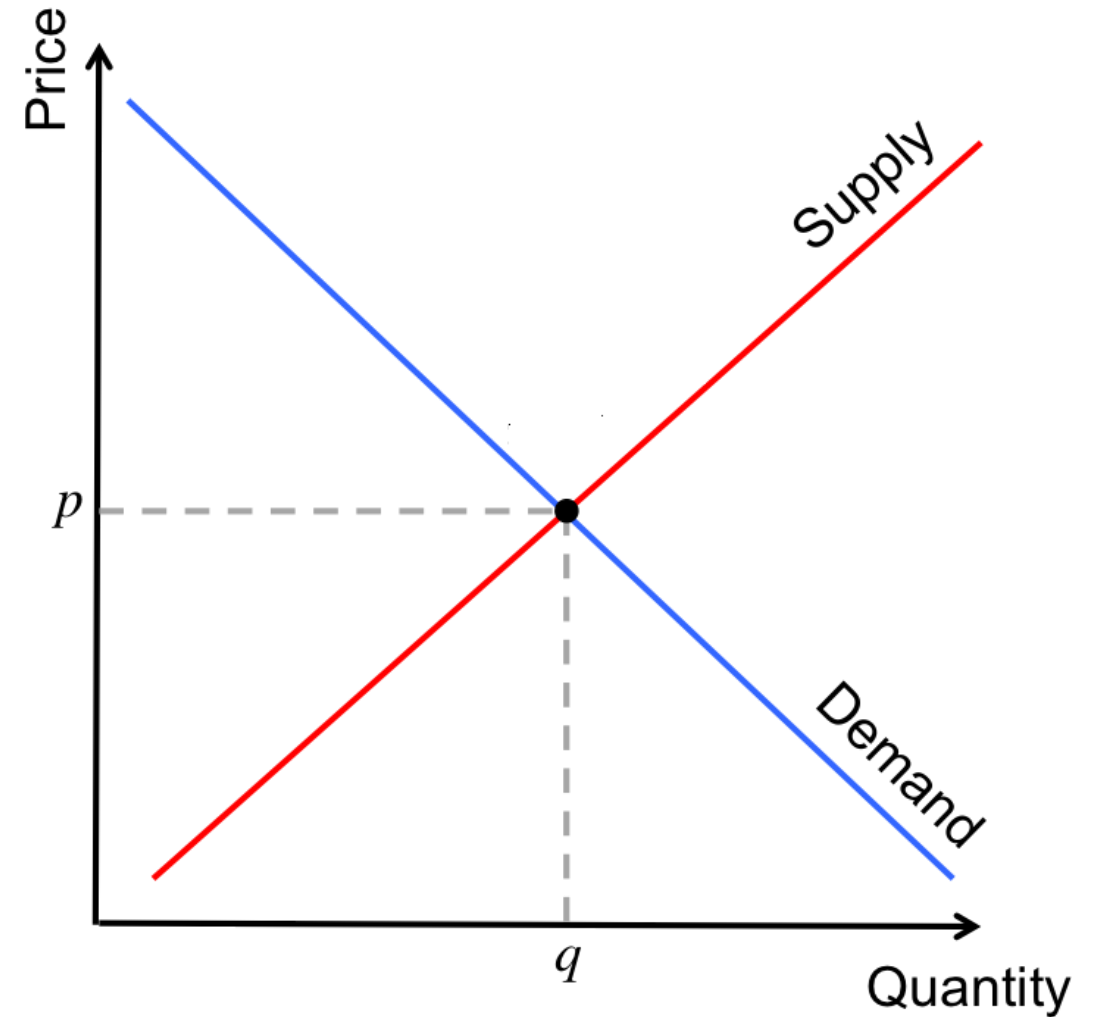
- Economy as a whole is too complex
- Simplifying it makes the analysis possible

We assume that all the other characteristics of the economy are not affected by the changes that we study

- Consumer's income, prices of other goods, etc.
- May leads to some bias in presence of substitutes, spillover effects etc.

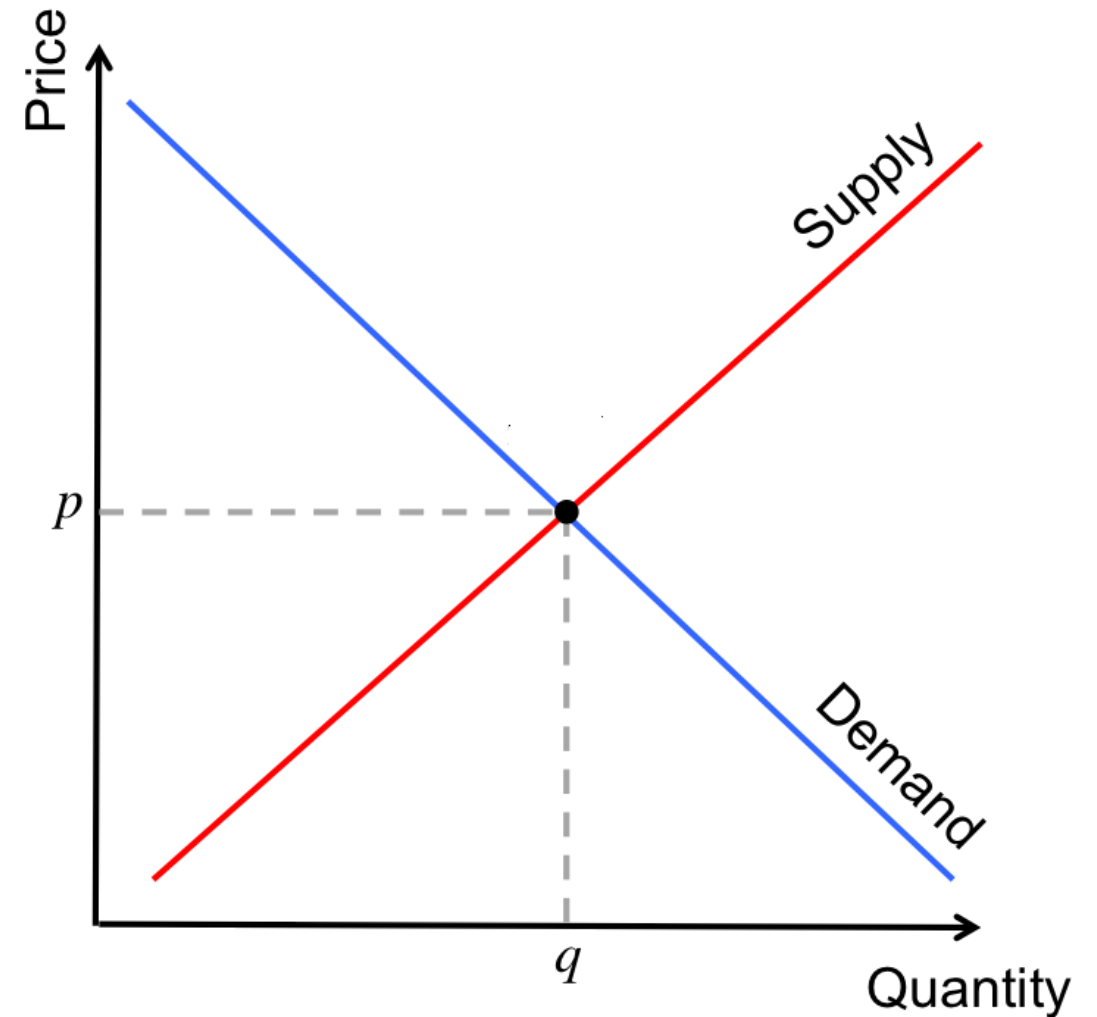
PARTIAL EQUILIBRIUM

- Excess demand / Excess supply
 - For example, due to demand / supply shifts



ECONOMIC SURPLUS

- **Consumer surplus** – the total benefit of the consumer from a given good after subtracting the costs of buying it
- **Producer surplus** – the total benefit of the producer from selling a given good after subtracting the costs of manufacturing it.



ECONOMIC SURPLUS

The sum of the consumer surplus and the producer surplus

The sum of the differences between reservation prices of buyers and sellers of consecutive units of a good exchanged in the market

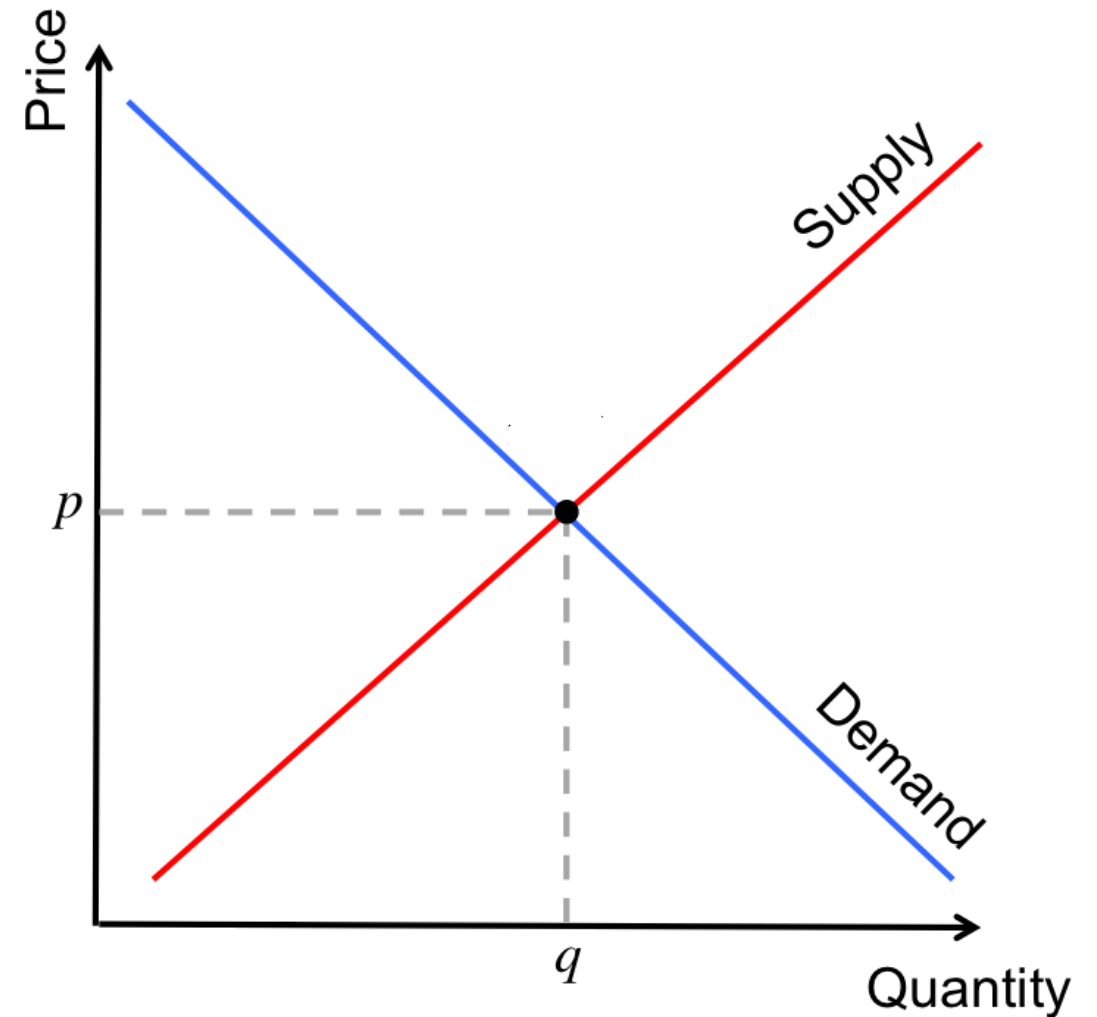
- The highest price that a buyer is willing to pay, or the lowest price that a seller is willing to accept

The difference between total social benefits and total social costs

ES is a (simplified) measure of welfare

ECONOMIC SURPLUS

- Consumer and producer surpluses will depend on the elasticities of demand and supply
- For example, higher elasticity of demand will translate to lower consumer surplus
 - Consumers are more price sensitive



ECONOMIC SURPLUS

Partial equilibrium is not limited to the case of perfect competition

- It can be analyzed also under different market structures, e.g. monopoly

Market structure will affect the economic surplus

- Deadweight loss