PMBA, MBAD6242.10  
Microeconomics for the Global Economy

Professor: Jiawen Yang, Ph.D.  
Professor of International Business and International Affairs  
jwyang@gwu.edu (Please specify the class you are in when you send emails;  
Contact TA first for questions)

Teaching Assistant: Hang Zhou, hangzhou@gwmail.gwu.edu

Office hours: 4:50-6:50pm, Wednesday (for professor and TA)  
Office address: 401B Funger Hall (2201 G Street, NW)

Course Description:

Microeconomics is concerned with the behavior of individual entities such as  
individuals/households as consumers, firms or enterprises as producers, and  
individual markets. We first examine how consumers maximize their happiness  
given the constraint of their income or wealth resources and how firms make  
investment and production decisions in order to maximize profits and shareholders’  
wealth. We then investigate how consumers’ demand and the producers’ supply  
interact to determine the equilibrium prices and quantities in individual markets.  
The course provides analysis of market structure and market environment (perfect  
competition, monopoly, oligopoly, and monopolistic competition). The  
government’s role in the economy and international trade theories/policies are also  
discussed in the course.

Course Objectives:

- To understand the basics of a market economy and the current global market  
environment.
- To understand how households and firms (consumers and producers) make  
decisions to allocate limited resources.
- To understand how demand and supply interact to determine market prices and  
quantities.
- To analyze the different types of market structure (perfect competition, monopoly,  
and monopolistic competition) in which firms operate.
- To understand the government’s role in dealing with market failures in the  
economy.
- To understand why nations trade, government trade policies, and principles of the  
World Trade Organization.
Required Readings:

**Lecture notes** and PowerPoint (PPT) slides (posted on Blackboard): They help course participants focus on the main points in the lectures.


**Other materials:** Selected articles from academic and business journals and other publications may be added to the readings as the course is in session.

See required readings for each specific class session in “Session Outlines and Reading Assignments” of this syllabus.

**Recommended supplementary text:**


**Requirements, Assignments, Tests, and Grading Policies:**

This course requires basic math skills in arithmetic, algebra, and geometry, as well as an ability to manipulate data, read graphs, and pay attention to details.

Students’ performance in the course is evaluated as follows:

<table>
<thead>
<tr>
<th>Component</th>
<th>Points</th>
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<tbody>
<tr>
<td>Weekly Homework assignments</td>
<td>35 points (5 points each)</td>
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<tr>
<td>Mid-term exam (in Week 4)</td>
<td>25 points</td>
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<tr>
<td>Final exam (in Week 8)</td>
<td>30 points</td>
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<tr>
<td>Participation</td>
<td>10 points</td>
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<tr>
<td><strong>Total</strong></td>
<td>100 points</td>
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**Blackboard:** Blackboard will be used extensively for posting course material, course administration, and communication, in addition to class discussions. Students are expected to access Blackboard on a regular basis while the course is in session for updates of course material, announcements, and other course related information.

**Weekly homework assignments:** There will be seven weekly problem sets (one for
The problem sets will be posted on Blackboard and students are required to submit answers to the problem sets on Blackboard by the designated deadlines (see announcement on Blackboard for specific administration of the assignments). No late submission is allowed, as answers to the problems are posted shortly after the due dates.

**Mid-term and the final exams:** They cover materials contained in class discussions (including the PowerPoint slides), the lecture notes, the required text and other required readings. The final exam is cumulative, with relatively more weights on materials covered after the mid-term exam. A calculator and a self-prepared 8½” by 11” cheat sheet (you can write on both sides) are allowed for the exams. Makeup for the exams is only allowed for emergencies, under which circumstances a physician’s note or other appropriate evidence should be provided. The makeup exams may be different from the original ones.

**Class participation:** Full attendance and active participation are required for the course. Participation is based on attendance, ability to answer questions and contributions to class discussions, and timely completion of in-class exercises. The participation grade is split equally among all class sessions.

**Grading Policy:** The grades are curved. The Faculty of the School of Business decided to implement a rigorous grade distribution format with limited numbers of students receiving high grades. The MBA Faculty Task Force recommends that the grade distribution of the class has an average within the range between 3.2 and 3.4 and no more than 20% of the class receives a grade of A.

**Disability Services:** Any student who may need an accommodation based on the potential impact of a disability should contact the Disability Support Services office at 202-994-8250 in Rome Hall, Suite 102, to establish eligibility and to coordinate reasonable accommodations. For additional information please refer to: http://gwired.gwu.edu/dss/.

**Academic Integrity:** Conduct and all work in this course must be in accordance with the GW Code of Academic Integrity. Academic dishonesty is defined as cheating of any kind, including misrepresenting one’s own work, taking credit for the work of others and the fabrication of information. Any assignment including plagiarized content will receive zero points. Please visit the following website for more information: http://www.gwu.edu/~ntegrity/code.html.
Session Outlines and Reading Assignments

Session 1  Introduction; Supply and Demand

Topics
Central concepts of economics
Major problems that an economy has to solve
The “invisible hand”
Alternative economic systems in the world
Inputs, outputs, technology, and production possibility frontier (PPF)
Specialization and exchange
Basic elements of supply and demand

Required readings:
Lecture note
Samuelson and Nordhaus, 2010:
  Chapter 1: The Central Concepts of Economics
  Appendix 1: How to Read Graphs
  Chapter 2: The Modern Mixed Economy
  Chapter 3: Basic Elements of Supply and Demand

Supplementary readings:
Perloff, 2012:
  Chapter 1: Introduction
  Chapter 2: Supply and Demand

Session 2  Demand and Consumer Behavior

Topics
Utility and marginal utility
The law of diminishing marginal utility
Price elasticity of demand and calculation
Income effect and substitution effect
Consumer surplus and calculation
Indifference curves and indifference maps
Consumer equilibrium with indifference curve and budget constraint

Required readings:
Lecture note
Samuelson and Nordhaus, 2010:
  Chapter 4: Supply and Demand: Elasticity and Application
  Chapter 5: Demand and Consumer Behavior
  Appendix 5: Geometrical Analysis of Consumer Equilibrium

Supplementary readings:
Perloff, 2012:
  Chapter 3: Applying the Supply-and-Demand Model
  Chapter 4: Consumer Choice
  Chapter 5: Applying Consumer Theory
Session 3  Firm Theory: Production and Costs
Topics
   The theory of production and marginal products
   Production functions, total product, marginal product, average product
   The law of diminishing returns
   Returns to scale
   Costs: Total cost, fixed cost, variable cost
   Average total cost, average fixed cost, average variable cost
   Marginal cost
Required readings:
   Lecture note
   Samuelson and Nordhaus, 2010:
      Chapter 6: Production and Business Organization
      Chapter 7: Analysis of Costs
Supplementary readings:
   Perloff, 2012:
      Chapter 6: Firms and Production
      Chapter 7: Costs

Session 4  Perfect Competition
Topics
   Firm behavior in a perfectly competitive market
   Profit maximization in a perfectly competitive market
   The break-even and shutdown conditions for a perfectly competitive firm
   The supply curve of a competitive firm and the marginal cost curve
   Producer surplus
   Market equilibrium with supply and demand
   The efficiency of perfect competition
Required readings:
   Lecture note
   Samuelson and Nordhaus, 2010:
      Chapter 8: Analysis of Perfectly Competitive Markets
Supplementary readings:
   Perloff, 2012:
      Chapter 8: Competitive Firms and Markets
      Chapter 9: Applying the Competitive Model
Session 5  Imperfect Competition

Topics
Market structures: Definitions and classifications
Monopoly profit maximization
Market structures and market power
Collusive oligopoly
Monopolistic competition
Oligopoly and game theory
Price discrimination

Required readings:
Lecture note
Samuelson and Nordhaus, 2010:
Chapter 9: Imperfect Competition and Monopoly
Chapter 10: Competition among the Few

Supplementary readings:
Perloff, 2012:
Chapter 11: Monopoly (Sessions 11.1 through 11.4)
Chapter 12: Pricing and Advertising
Chapter 13: Oligopoly and Imperfect Competition
Chapter 14: Game Theory

Session 6  The Government and the Economy

Topics
Market failures and imperfections
Inefficiency under monopoly
Externalities
Public goods
Efficiency and equity
The Gini coefficient (index)
Role of the government

Required readings:
Lecture note
Samuelson and Nordhaus, 2010:
Chapter 10: Competition among the Few (Section C, pp. 199-206)
Chapter 11: Economics of Uncertainty (pp. 211-221)
Chapter 16: Government Taxation and Expenditure (pp. 303-314)
Chapter 17: Efficiency vs. Equality: The Big Tradeoff (pp. 323-326)

Supplementary readings:
Perloff, 2012
Chapter 11: Monopoly (Sections 11.5 and 11.6)
Chapter 18: Externalities, Open-Access, and Public Goods
Session 7  International Trade Theories and Policies

Topics
The mercantilist view of trade
Trade based on mutual benefits
Comparative advantage: The Ricardo model
Comparative advantage: The H-O model
Inter- and intra-industry trade
Arguments for and against protection
Major principles of the WTO
Case analysis: current issues in international trade

Required readings:
Lecture note
Samuelson and Nordhaus, 2010:
Chapter 18: International Trade
Peter Debaere, “Why Countries Trade: The Theory of Comparative Advantage,”
_Darden Business Publishing_, University of Virginia, UV2702, July 24, 2009.
Available through _Harvard Business School case._


Supplementary readings:

Session 8  Final Examination