

MASTER in SOCIAL SCIENCES

Universidad Carlos III de Madrid

Course

ECONOMICS

6 ECTS

Fall 2024

Professor: Esteban A. Nicolini

This course reviews the fundamentals of Microeconomics. Microeconomic theory is based in the idea that consumers and firms try to do what is best for them given the incentives and restrictions of their economic environment. We will use mathematical tools to study consumers' and firms' behaviour and the properties of the different market structures that result from the interaction of consumers and firms. We will deal with topics such as how consumers choose what to buy, how firms decide what to produce and how consumers and producers interact in the market.

BIBLIOGRAPHY

General bibliography:

- Varian, Hal (2009). *Intermediate Microeconomics: A Modern Approach*. W.W. Norton & Company.
- Pindyck, R. and Rubinfeld, D. (2020). *Microeconomics*. Pearson.

Applications:

- Deiniger and Feder (2014). Land Institutions and Land Markets. WBRP.
- Galor and Zeira (1993), Income Distribution and Macroeconomics. *Review of Economic Studies*, vol. 60(1), pp 35-52.
- Becker, G. and Lewis, H.G. (1974). On the interaction between the quantity and quality of children. *Journal of Political Economy* 81, S279-S288.

COURSE OUTLINE

1. Introduction. Models and Markets. The concept of equilibrium. Comparative statics.
2. The theory of the consumer. Budget constraint, prices and incomes. Preferences and utility functions.
3. Consumers' maximization and choices. Normal and inferior goods. Individual demand.
4. Revealed preferences. Income effect and substitution effect. Slutsky equation.
5. Consumer surplus. Market demand. Properties.
6. Application: (1) a model of overlapping generation with bequests. (2) a model of quantity and quality of children.
7. Production and technology. Profit maximization and cost minimization.
8. Cost functions and supply functions. Firms supply and market supply. Equilibrium in a competitive market. Comparative statics.
9. Market failures: externalities, imperfect information, market power.

10. Imperfect competition and monopoly.
11. Applications: (1) theories of land markets.

GRADING

Grading will be based on the grades obtained in the midterm (30%) and the final exam (40%). The additional 30% of the grade will be based on discussions in class and problem sets that will be handed out approximately every other week. The final exam will be cumulative. Students can work in groups on the problem sets but they must turn in their own write-up of each problem set.

Solving and understanding the problem sets is essential for mastering the material and is the best way to prepare for the exams. The weight put on the problem sets is aimed at highlighting their importance for success in this class.