

Microeconomic Theory I
ECON 611-001
Fall 2019

Tuesday, 7:20 – 10:00pm

Class Location: Arlington Campus, Van Metre Hall (formerly Founders Hall) 111

Professor Rosolino Candela

**Office Location: Arlington Campus, Mercatus Center, 4th Floor of Metropolitan Building
(across from Van Metre Hall)**

Office Hours: Meetings to be scheduled by appointment

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COURSE OBJECTIVES:

This course investigates the foundations of microeconomics. You will first learn the basic tools of economics: supply and demand, opportunity cost, comparative advantage, the marginal way of thinking, and the role of institutions. These basics will provide the foundation for both the rest of this course and also for the second MA microeconomics course, ECON 612. By the end of the course, you will have a firm understanding of supply and demand and the role of prices. You will also be able to characterize consumer demand for a product and will have an understanding of entrepreneurship and the nature of competition in different types of markets. You will also understand how to apply the tools of economics to an array of policy issues.

REQUIRED MATERIALS:

The reading for this course comes from three sources: books, journal articles, and online readings.

Books

Alchian, Armen A., and William R. Allen. 2018. *[Universal Economics](#)*. Carmel: Liberty Fund.

Leeson, Peter T. 2009. *[The Invisible Hook: The Hidden Economics of Pirates](#)*. Princeton: Princeton University Press.

McCloskey, Donald. 1982. *[The Applied Theory of Price \(2nd ed.\)](#)*. New York: MacMillan.

Sowell, Thomas. 2014. *[Basic Economics: A Common Sense Guide to the Economy \(5th ed.\)](#)*. New York: Basic Books.

The McCloskey book is a standard intermediate micro text and is available online free of charge through the link provided. This textbook is optional reading. The core concepts in the text will align with what we cover in class, although my lectures will be structured differently. The McCloskey as well as the Alchian and Allen text is meant to serve as a reference in case you require further detail or background regarding what is discussed in class. You should read the textbook before contacting me with any questions regarding course material. I have listed the relevant pages from McCloskey as well as from the Alchian and Allen for each class so that you can easily reference the text if you desire.

Journal Articles and Online Readings

All of the journal articles and online readings listed below are required reading. I have provided links to the journal articles where available. For readings with no link you can access the paper through the GMU library (E-journal finder).

SCHEDULED OUTLINE OF COURSE TOPICS

1. The Economic Approach (August 27)

Optional Reading

Alchian and Allen, pp. 3-14

Required Readings

Buchanan, James M. 1964. "[What Should Economists Do?](#)" *Southern Economic Journal* 30(3): 213-222.

Levy, David M. and Sandra J. Peart. 2001. "[The Secret History of the Dismal Science. Part I: Economics, Religion and Race in the 19th Century.](#)" *Library of Economics and Liberty*

Sowell, pp. 1-7; 597-616.

2. Property, Trade, Coordination, and Institutions (September 3)

Optional Reading

Alchian and Allen, pp. 15-32, 50-61, 171-194

Required Readings

Alchian, Armen A. 1965. "[Some Economics of Property Rights.](#)" *Il Politico* 30 (4): 816–829.

Anderson, Terry and P.J. Hill. 1975. "[The Evolution of Property Rights: A Study of the American West.](#)" *Journal of Law and Economics* 18(1): 163-179.

Coase, Ronald H. 1960. "[The Problem of Social Cost.](#)" *Journal of Law and Economics* 3: 1-44.

Demsetz, Harold. 1967. "[Toward a Theory of Property Rights.](#)" *American Economic Review* 57(2): 347-359.

3. Property, Trade, etc. & Supply and Demand (September 10)

Optional Reading

Alchian and Allen, pp. 33-49, 62-96, 109-170

McCloskey, 6-50; 71-82.

Required Readings

Boudreaux, Donald J. 1995. "[A Modest Proposal to Deregulate Infant Adoptions.](#)" *Cato Journal* 15(1): 117-135.

Buchanan, James M. 1982. "[Order Defined in the Process of Its Emergence.](#)" *Literature of Liberty* 5: 7-58.

Leeson, Chapters 1 and 2

Radford, R.A. 1945. "[The Economic Organization of a P.O.W. Camp.](#)" *Economica* 12(48): 189-201.

Sowell, pp. 11-63

4. Consumer Choice (September 17)

Optional Reading

McCloskey, 84-131

Required Readings

Caplan, Bryan. 2006. "[The Economics of Szasz: Preferences, Constraints, and Mental Illness.](#)" *Rationality and Society* 18: 333-366.

Leeson, Chapter 3

Leonard, Thomas C. 2008. "[Review of Richard H. Thaler, Cass R. Sunstein, *Nudge: Improving decisions about health, wealth, and happiness.*](#)" *Constitutional Political Economy* 19(4): 356-360.

McChesney, Fred S. 2014. "[Behavioral Economics: Old Wine in Irrelevant New Bottles.](#)" *Supreme Court Economic Review* 21(1): 43-76.

Sowell, pp. 89-108.

Thaler, Richard and Cass Sunstein. 2003. "[Libertarian Paternalism.](#)" *American Economic Review* 93(2): 175-179.

Thaler, Richard and Mario Rizzo. 2007. "[Should Policies Nudge People to Make Certain Choices?](#)" *The Wall Street Journal*, May 25.

5. The Firm, Costs, and Production, Pt. 1(September 24)

Required Readings

Alchian, Armen A. 1950. "[Uncertainty, Evolution and Economic Theory.](#)" *The Journal of Political Economy* 58(3): 211-221.

Coase, Ronald H. 1937. "[The Nature of the Firm.](#)" *Economica* 4(16): 386-405.

Leeson, Chapter 4

Sowell, pp. 109-138.

6. The Firm, Costs, and Production, Pt. 2 (October 1)

Optional Reading

McCloskey, pp. 224-289

Alchian and Allen, pp. 97-108, 138-140, 197-213, 344-388

Required Readings

Alchian, Armen A. and Harold Demsetz. 1972. "[Production, Information Costs, and Economic Organization.](#)" *American Economic Review* 62(5): 777-795.

Alchian, Armen A., Robert G. Crawford, and Benjamin Klein. 1978. "[Vertical Integration, Appropriable Rents, and the Competitive Contracting Process.](#)" *Journal of Law and Economics* 21(2): 297-326.

7. Competition (October 8)

Optional Reading

Alchian and Allen, pp. 231-254

McCloskey, pp. 224-289

Required Readings

Coyne, Christopher J., Justin P. Isaacs, Jeremy T. Schwartz, and Anthony M. Carilli. 2007. "[Put Me in Coach, I'm Ready to Play.](#)" *The Review of Austrian Economics* 20(4): 237-246.

Hayek, F.A. 1948. "[The Meaning of Competition,](#)" in *Individualism and Economic Order*, Chicago: University of Chicago Press, pp. 92-106.

Leeson, Chapter 5-8 & Epilogue

8. Midterm Exam (October 15)

9. No class, October 22, Monday classes held on Tuesday due to Fall Break

10. Monopoly (October 29)

Optional Reading

Alchian and Allen, pp. 389-413

McCloskey, pp. 344-419

Required Readings

Alchian, Armen A., and Reuben A. Kessel. 1962. "[Competition, Monopoly, and the Pursuit of Money.](#)" In *Aspects of Labor Economics*. Princeton: Princeton University Press, pp. 157-183.

Boudreaux, Donald J. and Thomas J. DiLorenzo. 1993. "[The Protectionist Roots of Antitrust.](#)" *Review of Austrian Economics* 6(2): 81-96.

Crandall, Robert W. and Clifford Winston. 2003. "[Does Antitrust Policy Improve Consumer Welfare? Assessing the Evidence.](#)" *Journal of Economic Perspectives* 17(4): 3-26.

Demsetz, Harold. 1968. "[Why Regulate Utilities?](#)" *The Journal of Law & Economics* 11(1): 55-65.

McAfee, R. Preston and Nicholas V. Vakkur. 2004. "[The Strategic Abuse of Antitrust Laws.](#)" *Journal of Strategic Management Education* 1(3): 1-17.

Sowell, pp. 154-176

11. The Market Process (November 5)

Required Readings

Hayek, F.A. 1945. "[The Use of Knowledge in Society.](#)" *American Economic Review* 35(4): 519-530.

Hayek, F.A. von. 2002. "[Competition as a Discovery Procedure.](#)" *The Quarterly Journal of Austrian Economics* 5(3): 9-23. Translated from Hayek (1968) by Marcellus S. Snow

Akerlof, George. 1970. "[The Market for 'Lemons': Quality, Uncertainty and the Market Mechanism.](#)" *The Quarterly Journal of Economics* 84(3): 488-500.

12. The Economics of Politics, Pt. 1 (November 12)

Optional Reading

McCloskey, pp. 171-195

Required Readings

Bastiat, Frédéric. "[A Petition](#)." *The Library of Economics and Liberty*

Buchanan, James M. 1987. "[The Constitution of Economic Policy](#)." *The American Economic Review* 77 (3): 243–250.

Sowell, pp. 392-422

Stigler, George J. 1971. "[The Theory of Economic Regulation](#)." *The Bell Journal of Economics and Management Science* 2(1): 3-21.

13. The Economics of Politics, Pt. 2 (November 19)

Optional Reading

Alchian and Allen, pp. 138-140, 199

Required Readings

Holcombe, Randall G. 2018. "[The Coase Theorem, Applied to Markets and Government](#)." *The Independent Review* (23)2: 249–266.

McChesney, Fred S. 1987. "[Rent Extraction and Rent Creation in the Economic Theory of Regulation](#)." *Journal of Legal Studies* 16(1): 101-118.

Tullock, Gordon. 1967. "[The Welfare Costs of Tariffs, Monopolies, and Theft](#)." *Western Economic Journal* 5(3): 224-232.

Tullock, Gordon. 1975. "[The Transitional Gains Trap](#)." *The Bell Journal of Economics* 6(2): 671-678.

14. Economic Development (November 26)

Required Readings

Baumol, William, J. 1990. "[Entrepreneurship: Productive, Unproductive, and Destructive](#)." *Journal of Political Economy* 98(5): 893-921.

Clemens, Michael. 2009-2010. "[The Biggest Idea in Development That No One Really Tried](#)." *The Annual Proceedings of the Wealth and Well-Being of Nations* Vol. II: 25-49.

Hayek, F.A. 1989. "[The Pretense of Knowledge](#)." *The American Economic Review* 79(6): 3-7

Olson, Mancur Jr. 1996. "[Big Bills Left on the Sidewalk: Why Some Nations are Rich, and Others Poor](#)." *Journal of Economic Perspectives* 10(2): 3-24.

15. December 3, TBD

COURSE STRUCTURE & GRADING:

Courses will be a mix of lecture and open discussion. Students are responsible for taking notes. I do not make my lecture notes available. If a student misses class it is their responsibility to obtain the lecture notes from a classmate.

Your final grade is based on quizzes (20%) a midterm exam (35%) and a final exam (45%). No additional credit is available.

Quizzes: Quizzes will be administered at the beginning of class throughout the semester. The quizzes will test your knowledge of the content of the required readings for the class as listed above. There are no makeup quizzes, and students must be on time to receive a quiz. Once collected, quizzes will not be distributed to latecomers.

Midterm exam: The midterm exam will be administered in class on October 30, 2019. The exam will include *all* material covered up until that point in time.

Final exam: The final exam will be administered on Tuesday, December 17, 2019 from 7:30-10:15pm. This exam date and time is set by the University and is non-negotiable (<https://registrar.gmu.edu/calendars/fall-2019/final-exams/>). The final exam is comprehensive and will include *all* material covered throughout the semester. No make-up exams are offered under any circumstances, so if you are unable to attend either exam date listed above, it is best to drop the class now.

SPECIAL ACCOMODATIONS:

If you require any special accommodations, please see me immediately following the first class so that we can work together to make sure that you have what you need to succeed in this course.

POLICY REGARDING AUDIO/VIDEO RECORDING & PICTURES:

For the privacy and comfort of your fellow students, audio and video recordings, as well as photography, is strictly prohibited during class.

ACADEMIC DISHONESTY:

Cheating will not be tolerated and can result in a failing grade, dismissal from class, and expulsion from the university. If I suspect you of cheating, I will seek the appropriate punishment under George Mason University guidelines. Please review the [George Mason University Honor System and Code](#).