

**Microeconomic Theory I**  
**ECON 611-001**  
**Fall 2021**  
**Tuesday, 7:20 – 10:00pm**  
**Van Metre Hall 111**  
**Arlington Campus**

**Professor Rosolino Candela**  
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**Office Hours: Scheduled by appointment**

**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, property rights, and the marginal way of thinking. 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.

Buchanan, James M. 1979. [\*What Should Economists Do?\*](#) Indianapolis: Liberty Fund.

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

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

*Universal Economics* is a standard microeconomics textbook. Though this textbook is optional, the assigned readings are highly recommended. The core concepts in the text will align with what we cover in class, although my lectures will be structured differently. This textbook 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 *Universal Economics* for each meeting 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 EVENTS**

### **1. The Economic Approach (August 24)**

#### **Required Readings**

Buchanan, Chapter 1, “What Should Economists Do?”, pp. 17–37.

Buchanan, Chapter 6, “Economics and Its Scientific Neighbors,” pp. 115–142.

Sowell, Chapters 1 & 26

#### **Additional Readings**

Alchian and Allen, Chapters 1–3, pp. 3–44

### **2. Property, Trade, Coordination, and Institutions (August 31)**

#### **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.

#### **Additional Readings**

Alchian and Allen, Chapter 4

### **3. Property, Trade, etc. & Supply and Demand (September 7)**

#### **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, Chapters 2, 3, & 11

### Additional Readings

Alchian and Allen, Chapters 5, 6, 8, 9, 10 (pp. 133–138), 11, 12

## **4. Consumer Choice (September 14)**

### Required Readings

Buchanan, Chapter 2, "Is Economics the Science of Choice?", pp. 39–63.

Delmotte, Charles, and Malte Dold. 2021. "[Dynamic Preferences and the Behavioral Case Against Sin Taxes.](#)" *Constitutional Political Economy*

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.

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 (September 21)**

### Required Readings

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

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.

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

Leeson, Chapter 4

Sowell, Chapters 6 & 7

### Additional Readings

Alchian and Allen, Chapters 7, 10 (p. 139), 14, 16, 18, 22, 23

## **6. Competition (September 28)**

### 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

## **7. Monopoly (October 5)**

### Optional Reading

McCloskey, pp. 344-419

### Required Readings

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

Coase, Ronald H. 1972. "[Durability and Monopoly.](#)" *The Journal of Law & Economics* 15(1): 143–149.

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, Chapter 8

### Additional Readings

Alchian and Allen, Chapters 19, 20, 21, 24, 26

**8. No class, October 12, Monday classes held on Tuesday due to Fall Break**

**9. Midterm Exam, October 19**

**10. The Market Process (October 26)**

### 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.

**11. The Economics of Politics, Pt. 1 (November 2)**

### 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, Chapter 18

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

**12. The Economics of Politics, Pt. 2 (November 9)**

### Required Readings

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.

### Additional Readings

Alchian and Allen, pp. 138–140.

## **13. Economic Development (November 16)**

### 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.

## **14. No class, November 23, Thanksgiving Break**

## **15. Public Goods (November 30)**

Candela, Rosolino A., and Vincent J. Geloso. 2018. "[The Lightship in Economics.](#)" *Public Choice* 176, (3-4): 479-506.

Coase, Ronald H. 1974. "[The Lighthouse in Economics.](#)" *Journal of Law and Economics* 17(2): 357–376.

Cowen, Tyler. 1985. "[Public Goods Definitions and Their Institutional Context.](#)" *Review of Social Economy* 43(1): 53–63.

Coyne, Christopher J. 2015. "[Lobotomizing the Defense Brain.](#)" *The Review of Austrian Economics* 28(4): 371–396.

### **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 on October 19, 2021. The exam will include *all* material covered up until that point in time.

Final exam: The final exam will be administered on Tuesday, December 14, 2021 from 7:30 – 10:15 PM, according to GMU registrar (<https://registrar.gmu.edu/wp-content/uploads/Fall-2021-Final-Exam-Schedule.pdf>). 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 colleagues, audio and video recordings, as well as photography, are 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](#).