

Semester IV

Core I

8. Microeconomics II

Course Description

This course is a sequel to Microeconomics I. The emphasis will be on giving conceptual clarity to the student coupled with the use of mathematical tools and reasoning. It covers the Market, general equilibrium and welfare, imperfect markets, and topics under information economics.

Course Outcomes:

- To understand short-run and long-run supply decisions of a competitive firm & industry equilibrium
- To have a basic understanding of concepts of Pareto efficiency in consumption & production; general equilibrium, and welfare theorems
- To develop an understanding of imperfect markets such as Oligopoly
- To understand basic concepts of game theory.

Unit I: Firm Supply and Equilibrium

Supply decision of a competitive firm and Exceptions; Inverse Supply Function; Profits and Producer's Surplus; Long Run Supply Curve of a Firm; Long Run Average Costs; Short Run and Long Run Industry Supply; Industry Equilibrium in Short and Long Run; Meaning of Zero Profits; Economic Rent

LO: Upon completion of this module, students will understand the short-run and long-run supply decisions of a competitive firm and the concept of industry equilibrium; and gain an idea about long-run average costs, zero profit, and economic rent

Unit II: General Equilibrium, Efficiency and Welfare

The Edgeworth Box; Trade; Pareto Efficient Allocations; Existence, Stability and Uniqueness of equilibrium; Walras Law; The Welfare Theorems and their implications; The Firm; Production and the Welfare Theorems; Production possibilities, comparative advantage and Pareto efficiency

LO: This module shall help to understand concepts like Pareto efficiency, and general equilibrium in consumption and learn welfare theorems, comparative advantage, production possibilities, and general equilibrium in production

Unit III: Market Imperfections: Monopoly and Monopolistic Competition

Barriers to Entry, Profit Maximization and Output Choice, Monopoly and resource Allocation, Price Discrimination, Degrees of Price Discrimination, Regulation of Monopoly, Dynamic Views of Monopoly. Monopolistic competition – product differentiation, Selling costs and excess capacity

LO: This module shall aid in understanding the nature of monopoly markets and the role of barriers to entry and explain price discrimination; and to explain features of monopolistic competition and the question of economic inefficiency in equilibrium

Unit IV: Oligopoly and Game Theory

Non-collusive oligopoly models: Cournot, Bertrand, Stackelberg, Sweezy, Chamberlin, Collusive oligopoly models: Cartels, Price leadership. The Payoff Matrix of a Game; Nash Equilibrium, Pure and Mixed Strategies, The Prisoner's Dilemma, Repeated Games, Tit-for tat strategy, Enforcing a cartel, Sequential Games, A Game of entry deterrence

LO: Upon completion of this module, students will be able to understand and explain the features of oligopoly and learn different models thereof; and the meaning and use of game theory in oligopoly; understand concepts like Nash equilibrium and different types of games, especially Prisoner's dilemma.

Text Book:

- ✓ *H. R. Varian (2010): Intermediate Microeconomics: A Modern Approach, 8th Edition,*
- ✓ *W.W. Norton and Company/Affiliated East-West Press (India). The workbook by Varian and Bergstrom may be used for problems.*
- ✓ *Koutsoyiannis, A (1979): Modern Microeconomics, 2nd Ed, ELBS/Macmillan*

Reference Book:

- ✓ *C. Snyder and W. Nicholson (2012): Microeconomic Theory: Basic Principles and Extensions, 11th Edition, Cengage Learning, Delhi, India.*
- ✓ *Robert S. Pindyck and Daniel Rubinfeld: Microeconomics, 8th Edition, Pearson*
- ✓ *H. L. Ahuja (2018): Advanced Economic Theory. Twenty-First Edition, Sultan Chand Publication*