Lecture 01 - Overview of Microeconomic Theory

1. Economics: A Study of (rational) Choice under the condition of Scarcity
   cf) Opportunity Cost

2. Microeconomic Theory (*a.k.a.* Price Theory)
   Macroeconomic Theory (*a.k.a.* Income Theory)

3. Methodologies
   Economic Model: Assumptions and Propositions
   Deductive Method (Theory) vs. Inductive Method (Empirical Studies)
   Positive vs. Normative Economics

4. Rationality: Economic agents use rational means to achieve their goals.
   cf) bounded rationality

5. Optimization Problem: Minimization vs. Maximization
   cf) maximize profit with minimum amount of inputs? No way!
   cf) duality problem

6. Equilibrium: Existence, Stability, and Uniqueness
   cf) Not Balance? Why equilibrium?

7. Mathematical Equations
   Easy to understand, interpret and forecast the economic phenomenon.

8. Market Mechanism = Price Mechanism
   Rationing Function of Price
   Allocative Function of Price ("Invisible Hand" by Adam Smith, 1776)
   Mixed Economy=Market System + Government intervention

   "Economic behaviors only for self-Interest but eventually for public-good."
   Consumer Sovereignty vs. Dependence Effect (K. Gallbraith)

9. Market Demand
   Law of Demand (no exceptions? Think about this)
   $Q_D = f(P, P_R, M, N, T, L, \cdots)$: Market Demand Function
   ceteris paribus "Other Things Being Equal" (Alfred Marshall)
   cf) movement along the curve vs. shift of a curve

10. Elasticity

Arc elasticity vs. point elasticity

Ex) $Q = aP^{-b}$

Elasticity and Total Revenue

Determinants of Price Elasticity of Demand

Classification of goods based on Income Elasticity

Cross Elasticity of Demand

11. Equilibrium revisited

$Q_D = -aP + b$ and $Q_S = \alpha P - \beta$

Static Stability vs. Dynamic Stability

(See another lecture note on Stability of Equilibrium)

12. Price Control

Price Floor vs. Price Ceiling

13. Conspicuous Demand

Thorstein Veblen and Harvey Leibenstein

Bandwagon, Snob, and Veblen Effects