EDO UNIVERSITY, IYAMHO
EDO STATE, NIGERIA

COURSE TITLE: Introduction to Microeconomics I
COURSE CODE: ECO 211
CREDIT LOAD: 2 Units
ACADEMIC SESSION: 2018/2019

INSTRUCTOR: Imoisi Anthony Ilegbinosa
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LECTURE TIME TABLE: Wednesday, 8am – 10am, Lecture Classroom 4 (LC4)
Mobile Line: (+234) 8034525743
Office Hours: Tuesday, 9am – 2pm
OFFICE RM: 1st Floor, MH Administrative Block

GENERAL OVERVIEW OF LECTURE: The course is aimed at acquainting the students with the basic microeconomic theory. Topics covered include theoretical foundations of the subject; Problems of scarce resources; allocation of resources in product and factor markets with application to Nigerian and other economies; price system; role of price mechanism and consumer sovereignty; the concept of equilibrium; possibility of disequilibrium, partial equilibrium and general equilibrium analyses are discussed; Cobweb theory; supply and demand theory; equilibrium in the market; revenue and elasticity of demand.

PREREQUISITES: Students should be familiar with the concepts of principle of microeconomics (ECO 111) with specific knowledge of definition of economics by various scholars, subject matter of economics, basic economic problems in the society, basic tools of economic analysis, various economic systems, why we study economics, areas of specialization in economics etc.

LEARNING OUTCOMES:

At the end of the course, the student should be able to:

1. Define microeconomics and discuss its importance in the economy
2. Explain the limitations of microeconomics
3. Discuss and analyze the theories of demand and supply
4. Show how equilibrium price and quantity is attained in the market
5. Explain the concept of elasticity and its usefulness in a business
6. Discuss the various types of market structures

ASSIGNMENTS: Classroom test and a term paper on microeconomics will also be given to facilitate learning of the more challenging areas of the course. This will make up the continuous assessment of 30% of the final grade of every student.

GRADING: We will assign 10% of this class grade to homeworks, 10% for the term paper, 10% for the mid-term test and 70% for the final exam. The Final exam is comprehensive. The grading for this course is a combination of continuous assessment and final examinations. A final examination will be written at the end of the course and this will cover 70%

REFERENCE TEXTS

The recommended textbooks for this class are as stated:

Campbell, R. M. & Stanley, L. B. (2018): Microeconomics (21st Edition). McGraw-Hill Publishers

Campbell, M. (2015): Microeconomics (20th Edition). McGraw-Hill Publishers

Chiang, E. P. (2014): Core Microeconomics (3rd Edition). W. H. Freeman Publishers

Colander, (2017): Microeconomics (10th Edition). Richard D. Irwin, Inc. Publishers

Henderson, V. & Poole, W. (1991): Principles of Microeconomics. D.C. Heath and Company, Canada

Hubbard, O. (2107): Microeconomics (6th Edition). Pearson Publishers

Karl, L. B. & Susan, L. D. (2019): Microeconomics Workbook (Orange) 19th Edition. Stipe Publishing L.L.C

Krugman, P. (2015): Microeconomics (4th Edition). Worth Publishers, Inc.

Mankiw, N. G. (2014): Mankiw's Principles of Economics (7th Edition).

Robert, P. (2018): Microeconomics (9th Edition). Pearson Publishers

Rodger, L.M. (2012): Economics Today Micro View Plus (16th Edition). Prentice Hall Inc.

Introduction

The term "micro-economics" is gotten from the Greek word micro, which means small or infinitesimal or minute. It is also known as price theory. It deals with the analysis of behaviour of small decision-making or individual unit, such as an individual, firm, or a consumer etc.

It studies or deals with only the employment in a firm. It also focuses on the transfer or the flow of economic resources or factors of production from the owners of resources to business firms and the transfer or flow of goods and services from the business firms to households or consumers. It studies the composition of such flows as well as how the prices of goods and services in the flow are determined.

A worthy feature or characteristic of the micro-approach is that, while carrying out economic analysis on a micro basis, universally the assumption of full employment in the economy as a whole is made. Based on this assumption, the major economic problem is primarily that of allocation of resources or of theory of price.

Importance of Micro-Economics:

Formulation of economic policies: It assists in the formulation of various economic policies that will promote efficiency in production and the welfare of citizens in a given country

Distribution of goods and services: It gives an explanation on how goods and services produced in the economy through the market mechanism are distributed to all living in a given country

Efficiency in consumption and production: It provides an explanation on the conditions for efficiency both in consumption and production of goods and services

Determination of prices: It helps to explain how the relative prices of various products and productive services are determined in an economy

Functioning of free enterprise economy: It explains how millions of consumers and producers in an economy take decisions regarding the allocation of productive resources among millions of goods and services.

Limitations of Microeconomics

Microeconomic analysis has certain limitations and these include the following:

It does not give an idea of the functioning of the economy as a whole. It does not analyze the aggregate or total level of employment in the economy, aggregate or total demand, inflation, gross domestic product, etc.

It assumes that there is full employment in the economy as a whole. In real life situation, we know that this is practically impossible.

Theory of Demand

Demand is the quantity or amount of a good or service that consumers, individuals or buyers are willing and able to buy at a given price and at a given period in time. From this definition, we can observe three features or characteristics of demand, which include the following:

1. Willingness and ability to pay. Demand is the amount of a commodity for which a consumer has the willingness and also the ability to buy.

2. Demand always involves a price. If we talk of demand without making reference to price, it will be meaningless. The consumer must have knowledge of both the price and the commodity. Then, he will be able to tell the quantity demanded by him.

3. Demand is always at a per unit of time. The time may be a day, a week, a month, or a year.

Effective Demand - Effective demand occurs when there is a desire to buy a commodity and it is backed up by an ability to pay for it. It is an illustration of the actual amount of goods or services that buyer or consumers are purchasing in a given market. Effective demand is the difference between notional demand and latent demand

Latent Demand – This occurs when there is willingness to buy goods or services, but where consumers or buyers do not have the purchasing power to be able to afford the good or service, or lacks knowledge about the good or service. The advantage of latent demand is that it offers an opportunity to firms to raise their revenue by investing in marketing efforts or introducing low-cost products.

Law of Demand – The law states that the quantity of a good or service is inversely or negatively related to its price, ceteris paribus (all things being equal). That is the higher the price, the lower the quantity demanded and the lower the price, the higher the quantity demanded.

This law can be represented in three ways:

Demand Schedule – Tabular representation

Demand Curve – Graphical representation

Demand Equation – Mathematical representation

This can be shown below:

The demand schedule

Table-1: Individual Demand Schedule

Price of A (per kg in ₹)	Quantity Demanded (per week in kgs)
10	15
15	10
20	8
25	4
30	2

The demand curve

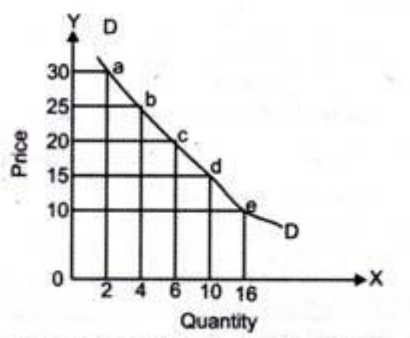


Figure-3: Individual Demand Curve

The demand equation

D = f(P)

Where

D= Demand

P= Price

f = Functional Relationship

This can be expressed as D = a - bP

Individual Demand and Market Demand for a Commodity

The individual's demand for a good or service is the quantity of that good or service which the consumer or buyer is willing to purchase at any given price over a specified period of time. All things being equal, it varies inversely with price. This is illustrated below:

Individual demand schedule

Table-1: Individual Demand Schedule

Price of A (per kg in ₹)	Quantity Demanded (per week in kgs)
10	15
15	10
20	8
25	4
30	2

Individual demand curve

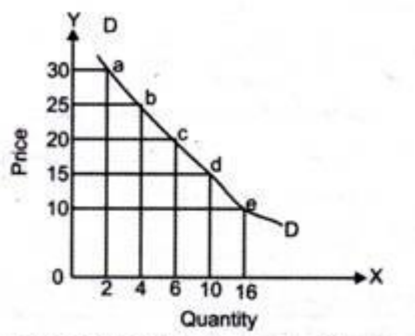


Figure-3: Individual Demand Curve

While the market demand for a good or service is gotten by summing up the total quantity demanded at various prices by all the individuals or consumers over a specified period of time in the market. It is explained as the horizontal addition of the individuals' demand for a good or service at various possible prices in market. This is illustrated below:

Market demand schedule

Table-4: Demand Schedule for Product P				
Price of P (per unit in ₹)	Individual Demand (per day)			
	Ram	Shyam	Sharad	Ghanshyam
15	2	3	1	3
10	4	5	4	4
8	6	8	6	6
4	7	9	9	8

Market demand curve

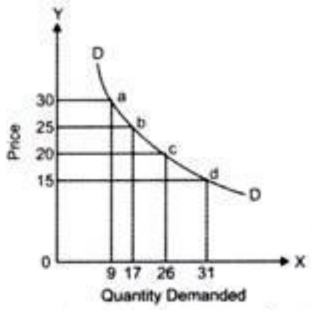


Figure-6: Market Demand Curve for Product P

Factors that Affects Demand or Determinants of Demand

The following are some of the factors that affect the demand of a commodity:

Price of the Commodity

Income of the Consumer (Normal, Inferior and Necessity goods)

Price of Related Goods (Complementary or Substitute Goods)

Consumer's Taste and Preference

Consumer's Expectation

Population of the Consumers in a place or location

Market Strategies

Natural Factors

Availability of Credit

Cost of Borrowing (Interest Rates0

Types of Demand

Joint/Complementary Demand (Complementary Goods)

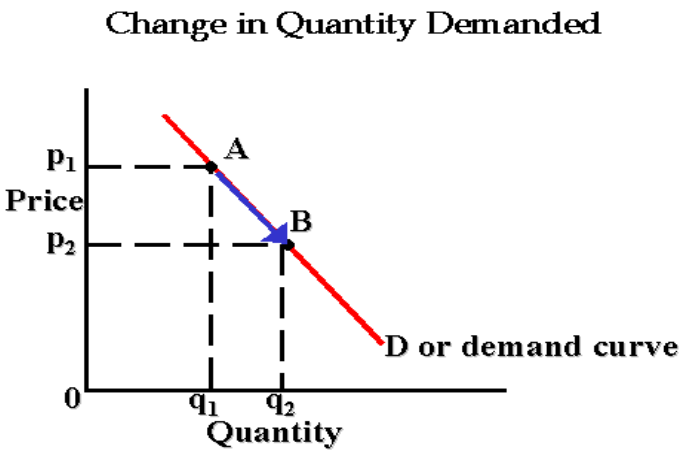
Competitive Demand (Substitute Goods)

Derived Demand (Final and Intermediate Goods; Any Factor of Production)

Composite Demand (Goods that have alternative uses)

Change in Quantity Demanded and Change in Demand

Change in Quantity demanded is the movement along the same demand curve. It is brought about by a change in the Price of the commodity, holding other factors that affect demand constant. It brings about an increase or decrease in demand. An increase in the price of the commodity brings about a decrease in demand, while a decrease in the price of the commodity brings about an increase in demand ceteris paribus. This is shown below:



Change in Demand is the bodily or total shift of the demand curve either to the right or left. It is brought about by all other factors affecting demand except the price of the commodity. It brings about an increase or decrease in demand. An increase in demand shifts the demand curve to the right, while a decrease in demand shifts the demand curve to the left. This is shown below