

ECO507: APPLIED MICROECONOMIC THEORY

Fall 2009

Prof. Tae-Hee Jo

CONTACT INFORMATION	Classroom Bd. B230 Economics & Finance Department Buffalo State College	<i>Phone:</i> (716) 878-6933 <i>E-mail:</i> joth@buffalostate.edu <i>Web:</i> faculty.buffalostate.edu/joth
CLASS HOUR	Tuesday 6:00-8:40 PM, Classroom BD C116	
OFFICE HOUR	Tuesday/Thursday, 11:00-12:00, 3:00-4:00, and by appointment	
COURSE DESCRIPTION	<p>This course examines contending approaches to microeconomic theories and their applications in specific areas of economic analysis such as consumer behavior, business enterprises' strategic decision making process, consequences of business activities (e.g. cycles, growth, and welfare), and industrial organization. Multiple analytical techniques (mathematical, descriptive, graphical, narrative, historical, etc) will be employed in identifying the nature and scope of microeconomic problems, and in policy analysis. Students will use theoretical frameworks developed in this course to understand real world events and learn how to apply economic theory in practice. Competing explanations and policy suggestions will be considered—especially, heterodox approaches are stressed. Throughout the course students are frequently asked to think about following questions: 1) <i>Is the law of demand-supply relevant?</i> 2) <i>Do consumers have sovereignty?</i> 3) <i>What are the roles of private business enterprises in the social provisioning process?</i> 4) <i>Does the state always serve public interests?</i></p>	
RECOMMENDED TEXTBOOKS	<ul style="list-style-type: none">• Any intermediate or higher-level microeconomics textbook may be useful to understand conventional (neoclassical) microeconomic theory.• Frederic S. Lee. 1998. <i>Post Keynesian Price Theory</i>. Cambridge, UK: Cambridge University Press• John Kenneth Galbraith. 1967. <i>The New Industrial State</i>. Boston: Houghton Mifflin.• Thorstein Veblen. 1899. <i>The Theory of the Leisure Class</i>. New York and London: Macmillan. Free on-line version: http://de.geocities.com/veblenite/txt/tlc.txt or http://cas.umkc.edu/econ/Institutional/Readings/Veblen/TLC/tlc.htm• Thorstein Veblen. 1904. <i>The Theory of Business Enterprise</i>. New York: Charles Scribner's Sons. Free on-line version: http://de.geocities.com/veblenite/txt/tbe.txt or http://cas.umkc.edu/econ/Institutional/Readings/Veblen/TBE/tbe.htm	
GRADING POLICY	<p>This course will be graded on the college's approved A-E letter grading scale. The final grade will be based on the following assignments.¹</p>	

¹Note that at the graduate level, grades of C or higher may be applied toward credit requirements

- **Class participation** (attendance, discussion, and presentation): 10%²
- **Term paper:** 30%. 2,500-3,000 words. Due on Dec. 1.³
- **Mid-term exam:** 30%. October 13. In class.
- **Final exam:** 30%. December 15. In class.

ACADEMIC
DISHONESTY
POLICY

Students who engage in plagiarism on the term paper and cheating on examinations and the term paper, multiple submission of the same work, unauthorized collaboration, falsification and/or any other violation of academic integrity will receive an “E” grade in the course. Read carefully the official policy on academic misconduct at <http://www.buffalostate.edu/academicaffairs/x607.xml>

Course Schedule, Outline, and Reading Lists

NOTES ON READING MATERIALS
Angel: download from Angel
Res: library reserve. Students can borrow reserved books for 2 hours from the library circulation desk.
Jstor: access through http://www.jstor.org .
Web: free on-line materials.
★ required reading.
<i>If anyone has a problem in getting reading materials, contact the instructor.</i>

Week 1
Sep. 1

Economics: History and Methodology

- What is economics? Optimal allocation Vs. Social Provisioning Process
- History of Economic Thoughts
- Orthodoxy Vs. Heterodoxy
- Philosophy and Methodology
- Micro and Macro
- Theory and Reality

Readings

1. ★ Lee, F. S. 2008. Heterodox Economics. In *The Palgrave Dictionary of Economics*. Palgrave. [Angel]
2. ★ Henry, J. F. 2009. The Illusion of the Epoch: Neoclassical Economics as a Case Study. *Studi e Note di Economia*, Vol. 1. [Angel]
3. ★ Lawson, T. 2009. The current economic crisis: its nature and the course of academic economics. *Cambridge Journal of Economics*, Vol. 33, 759-777
4. Nagel, Ernest. 1963. Assumptions in Economic Theory. *American Economic Review* 53(2): 211-219. [Jstor]

for a master’s degree. Grades of C- or lower are not used to satisfy degree requirements. Grades of C- or lower may be repeated. Graduate students are required to maintain a minimum GPA of 3.0 in all graduate coursework.

²A student presents one assigned reading during the semester. The lineup and the guideline for the presentation will be announced soon. The presenter leads the discussion. Other students are supposed to read the paper for the discussion.

³A list of suggested topics and guidelines will be handed out separately.

5. Friedman, M. 1953. The Methodology of Positive Economics. In *Essays in Positive Economics*, 3-43. Chicago: The University of Chicago Press. [Angel]
6. Veblen, T. 1898. Why economics is not an evolutionary science. *Quarterly Journal of Economics* 12(4), 379-397. [Jstor]
7. Lawson, T. 2003. *Reorienting Economics*. London: Routledge. Ch. 1. [Angel]
8. Green, Tom. 2008. "Thought Control in Economics". *Adbusters*, July/August. [Angel]

Week 2

Sep. 8

Microeconomics: Overview

- Neoclassical and Heterodox Microeconomics
- Microfoundations and Macrofoundations
- Agents, Structures, and Causal Mechanisms

Readings

1. ★ Lee, F. S. 2005. Teaching Heterodox Microeconomics. *post-autistic economics review* 31: 26-39. <http://www.paecon.net/PAERreview/issue31/Lee31.htm>
2. ★ Lavoie, M. 2006. *Introduction to Post-Keynesian Economics*. Palgrave/Macmillan. Ch. 2 [Angel]
3. ★ Veblen, T. 1909. The Limitations of Marginal Utility. *Journal of Political Economy* 17(9), 620-636. [jstor]
4. McDermott, John. 2003. *Economics in Real Time*. Ch.1. Rethinking Economic Behavior. Ann Harbor: The University of Michigan Press. [Angel]
5. Rosenberg, A. 2001. The metaphysics of microeconomics. In *The economic world view: Studies in the Ontology of economics*, edited by Uskali Mäki, 174-188. Cambridge, UK: Cambridge University Press. [Angel]
6. Katzner, D. W. 2001. The significance, success, and failure of microeconomic theory. *Journal of Post Keynesian Economics* 24(1): 41-58. [Angel]

Week 3

Sep. 15

Theory of The Business Enterprise

- Neoclassical theory of the firm
- Heterodox theories of the business enterprise
- Market power, market structure, corporate hegemony

Readings

1. ★ Veblen. 1904. *Theory of Business Enterprise*; Chs. 1, 2, and 3. [on-line]
2. ★ Galbraith, John K. 1967. *The New Industrial State*. Boston: Houghton Mifflin; Chs. 6 and 7. [Res]
3. ★ Eichner, A. S. 1976. *The Megacorp and Oligopoly*. Cambridge: Cambridge University Press; chs.1 and 2. [Angel]
4. Klein, Philip. 1987. Power and Economic Performance: The Institutionalist View. *Journal of Economic Issues* 21(3): 1341-1377. [Angel]

Week 4
Sep. 22

Production and Costs I: Orthodoxy

- Neoclassical theory of production and costs
- Duality: Profit max and Cost min
- Law of Supply

Readings

1. ★ Lee, F. S. Book V, Chs. 1, 2, 3, and 5, unpublished manuscript [Angel] or
2. ★ See any intermediate/advance microeconomics textbook
3. ★ Robinson, J. 1977. What Are the Questions? *Journal of Economic Literature*, Vol. 15, No. 4, pp. 1318-1339 [Angel]
4. Maxwell, W. D. 1969. Production Theory and Cost Curves. *Applied Economics* 1: 211-224. [Angel]

Week 5
Sep. 29

Production and Costs II: Heterodoxy

- Business Enterprise in the Monetary production economy
- Input-Output table
- Cost accounting

Readings

1. ★ Lee, F.S. 2009. Heterodox Production and Cost Theory of the Business Enterprise, paper presented at the 4th Cross-Border Post Keynesian Conference, Buffalo, NY, October. [Angel]
2. ★ Lee, F. S. 1986. Post Keynesian View of Average Direct Costs: A Critical Evaluation of the Theory and the Empirical Evidence. *Journal of Post Keynesian Economics* 8(3): 400-424. [Angel]
3. Leontief, W. 1986. *Input-Output Economics*. New York: Oxford University Press; chs 1 and 2. [Angel]

Week 6
Oct. 6

Consumer Behavior and Demand I: Orthodoxy

- *Homo Economicus* and utility maximization
- Law of Demand
- Market demand curve: elasticity, substitutes, and complements

Readings

1. ★ Lee, F.S. Book IV, unpublished manuscript. [Angel] or
2. ★ See any intermediate/advance neoclassical textbook.
3. Keen.S. 2002. *Debunking Economics*, Ch. 2. [Res]
4. ★ Drakopoulos, S. A. 1994. Hierarchical Choice in Economics. *Journal of Economic Surveys* 8(2): 133-153. [Angel]

Week 7
Oct. 13

Midterm Exam. In class.

Week 8
Oct. 20

Consumer Behavior and Demand II: Heterodoxy

- *Homo Socialis*
- Heterodox Principles of consumption behavior
- Social formation of preference and needs
- Consumerism

Readings

1. ★ Lavoie, M. 2006. *Introduction to Post Keynesian Economics*, Ch.2. [Angel]
2. ★ Veblen. T. 1898. *The Theory of Leisure Class*; ch.4 (Conspicuous consumption) [web]
3. Galbraith, J. K. 1967. *The New Industrial State*; ch. 18. [Res]
4. ★ Migone, Andrea. 2007. Consumerism: Patterns of Consumption in Contemporary Capitalism. *Review of Radical Political Economy* 39(2): 173-200. [Angel]

Week 9
Oct. 27

Pricing and Price

- Price and Pricing
- Scarcity and Reproducing
- Pricing mechanisms

Readings

1. Lee, F.S. 1998. *Post Keynesian Price Theory*. Cambridge, UK: Cambridge University Press. [Res]
2. ★ Lee, F. S. 1996. Pricing, the Pricing Model and Post-Keynesian Price Theory. *Review of Political Economy* 8 (January): 87 - 99. [Angel]
3. ★ Eichner, A. 1976. *The Megacorp and Oligopoly*. Cambridge: Cambridge University Press; ch. 3. [Angel]
4. ★ Melmies, J. 2008. New-Keynesians Versus Post-Keynesians on the Theory of Prices. Unpublished. [Angel]
5. Holt, R. and Pressman, S. 2001. *A New Guide to Post Keynesian Economics*. London: Routledge; ch. 3. ("Pricing" by Marc Lavoie) [Angel]
6. Downward, P. 2003. Post Keynesian Pricing Theory: Alternative Foundations and Prospects for Future Research. Unpublished. [Angel]

Week 10
Nov. 3

Investment and Financing

- Strategic decisions
- Business enterprise's Investment
- Connections: Pricing, Price, Financing, and Investment

Readings

1. Lee, F.S. 1998. *Post Keynesian Price Theory*. Cambridge, UK: Cambridge University Press. [Res]
2. ★ Jo, T. 2007. *Microfoundations of Effective Demand*, Ch. 4 (Microfoundations of the business enterprise). Ph.D. dissertation. University of Missouri-Kansas City. [Angel]

3. ★ Moss, S. 1981. *An Economic Theory of Business Strategy*. New York: John Wiley and Sons; ch. 3. [Angel]
4. ★ Harcourt, G. C. and P. Kenyon. 1976. Pricing and the Investment Decisions. *Kyklos*: 449-477. [Angel]
5. Lavoie, M. 1992. *Foundations of Post-Keynesian Economic Analysis*. Aldershot: Edward Elgar; ch. 3. [Angel]

Week 11
Nov. 10

Markets and Industry

- Market competition: perfect competition, oligopoly, and monopoly
- Self-adjusting market, Market Failure, and Government failure
- Market governance, Market regulation, and Industrial policy

Readings

1. Polanyi, Karl. 1944. *The Great Transformation*, Boston: Beacon Press; Part II. [Res]
2. ★ Galbraith, J. K. 1967. *The New Industrial State*; Chs. 26 and 27. [Res]
3. ★ Granovetter, M. 1985. Economic Action and Social Structure: The Problem of Embeddedness. *American Journal of Sociology* 91(November): 481-510. [Angel]
4. Fligstein, N. 1996. Markets as Politics: A Political-Cultural Approach to Market Institutions. *American Sociological Review* 61: 656-673. [jstor]
5. Howe, M. 1972-73. A Study of Trade Association Price Fixing. *Journal of Industrial Economics* 21: 236-256. [Angel]
6. Groenewegen, J. 2004. Who Should Control The Firm? Insights From New And Original Institutional Economics. *Journal of Economic Issues*, vol. 38, 353-361. [Angel]

Week 12
Nov. 17

Microfoundations of Macroeconomics

- The principle of effective demand
- Price-Quantity Model
- Business Enterprise, Business Cycles, and Economic Growth
- Stagnation Thesis
- Financial Instability Hypothesis

Readings

1. Jo, T. 2007. *Microfoundations of Effective Demand*, Ch.6. Ph.D. Dissertation. University of Missouri–Kansas City. [Angel]
2. Hoover, K. D. 2008. Idealizing Reduction: The Microfoundations of Macroeconomics. Working paper. Departments of Economics and Philosophy, Duke University. [Angel]
3. King, J. E. 2008. Microfoundations? Working paper. Department of Economics and Finance, La Trobe University, Victoria, Australia. [Angel]

4. ★ Jo, T. 2009. Business Enterprises and Business Cycles. Paper presented at the 4th Cross-Border Post Keynesian Conference, Buffalo, NY, October. [Angel]
5. ★ Baskoy, T. 2009. Business Competition and Financial Crisis. Paper presented at the 4th Cross-Border Post Keynesian Conference, Buffalo, NY, October. [Angel]
6. Eichner, A. 1976. *The Megacorp and Oligopoly*. Cambridge: Cambridge University Press. Ch. 6. Micro and macro. [Angel]
7. Levine, D. P. 1975. The Theory of the Growth of the Capitalist Economy. *Economic Development and Culture Change* 23 (October): 47-74. [Angel]
8. ★ Minsky, H. 1992. The Financial Instability Hypothesis. Working paper #72, The Jerome Levy Economic Institute. [Angel]

Week 13

Nov. 24

Social Welfare and Social Control

- Welfare and Pareto Efficiency
- Surplus Approach
- Social control and social policy

Readings

1. Veblen. 1904. *The Theory of Business Enterprise*. Ch. 7. [web] <http://de.geocities.com/veblenite/txt/tbe.txt>
2. Keynes, J. M. 1936. *The General Theory of Employment, Interest, and Money*; ch. 24. [web] <http://www.marxists.org/reference/subject/economics/keynes/general-theory>
3. Eichner, A. 1976. *The Megacorp and Oligopoly*. Cambridge: Cambridge University Press; ch. 8. [Angel]
4. ★ Henry, J. F. 2009. Welfare in Historic Context: Protection of People against the Market, or Protection of the Market against People? Paper presented at the AFIT Conference, April. [Angel]
5. ★ Jo. T. 2009. A Post Keynesian Microeconomic Approach to Welfare. Paper presented at the AFIT Conference, April. [Angel]

Week 14

Dec. 1

Students' term-paper presentations.

Week 15

Dec. 8

Review

A problem set will be distributed.

Week 16

Dec. 15

Final Exam. In class.