

MGT 207: Microeconomics for Business

Level: Bachelor's
Nature of the Course: Compulsory
Program: BBS

Full Marks:100
Pass Marks: 35
Lecture Hours: 150

Course Objectives

This course aims to enhance the understanding of microeconomic theories and their practical applications by developing students' skill in the application of theories in business decisions making.

Course Description

This course comprises introduction to microeconomics, market equilibrium and efficiency, elasticity of demand and supply, analysis of consumer's behaviour, theory of production, cost and revenue curves, product pricing theories and practices and factor pricing.

Learning Outcomes

By the completion of the course students will be able to:

- Explain the nature and scope of the microeconomics and business economics.
- Explain the concept of market equilibrium and efficiency and to analyze effect of change in market demand market supply to the market equilibrium and efficiency.
- Define and measure elasticity of demand and supply, their applications and uses in business decision making.
- Analyze the consumer's behaviour, derivation of the demand curve for normal goods by using both cardinal and ordinal approach.
- Explain the single variable and the multi-variable production functions and determination of the optimal combination of two inputs.
- Acquire the knowledge about the concept and nature of cost and revenue and to derive costs and revenue curves.
- Explain pricing of the products and the inputs under different market structures.

Course Details

Unit 1: Introduction ----- 15LHs

Microeconomics: meaning, scope, uses and limitations of microeconomics; Business economics: nature and scope; Basic concepts: production possibility curve, marginal analysis, incremental analysis, static and dynamic equilibrium analysis in microeconomics; and Ten principles of economics.

Unit 2: Market Equilibrium and Efficiency ----- 20 LHs

Demand function: types, determinants of demand, movement and shift in demand curve; Supply function: types, determinants of supply, movement and shift in supply curve; Market equilibrium; Effect of changes in demand and supply on market equilibrium; Effect of government policy (Tax, subsidy and price control) in market equilibrium; Concept of market efficiency; and Measuring market efficiency by consumer's surplus and producer's surplus.

Unit 3: Elasticity of Demand and Supply ----- 20 LHs

Price elasticity of demand: concept, degree and calculation (percentage/proportionate and average method); Point price elasticity of demand; Price elasticity and total expenditure; Income elasticity of

demand: concept, degree and calculation (percentage/proportionate and average method); Cross elasticity of demand: concept, degree and calculation (percentage/proportionate and average method); Concept of advertisement elasticity of demand; and Uses of price, income, cross and advertisement elasticity of demand; and Price elasticity of supply: concept, degree and calculation (percentage/proportionate and average method)

Unit 4: Analysis of Consumer's Behavior----- 20 LHs

Cardinal approach: assumptions, consumer's equilibrium, criticisms and derivation of demand curve; Ordinal approach: assumptions and properties of Indifference curve; Marginal rate of substitution; Price line; Consumer's equilibrium; Price effect and derivation of price consumption curve (normal goods and Giffen goods); Income effect and derivation of income consumption curve (normal and inferior goods); Substitution effect; Decomposition of price effect into income and substitution effect; and Derivation of demand curve for normal goods.

Unit 5: Theory of Production ----- 15 LHs

Production function: Short-run and Long run production functions; concept of Cobb-Douglas production function; Law of variable proportions; Isoquant: assumptions, marginal rate of technical substitution and properties; Iso-cost curve; Optimal employment of inputs; and Laws of return to scale.

Unit 6: Cost and Revenue Curves ----- 20 LHs

Cost function; Concept of costs: Implicit cost and explicit cost, accounting cost and economic cost, historical cost and replacement cost, separable cost and common cost, opportunity cost; Short-run costs: cost-output relationship; derivation of short run total cost curves and their relationship; derivation of short-run average and marginal cost curves and their relationship; Reason for the U-shaped of short run average cost curve; Relationship between AC and MC curves; Long-run costs: derivation of long run average and marginal cost curves; Reason for the U- shaped, L- shaped and continuously falling long run average cost curve; Economies of scale; and Concept of economies of scope. Revenue: revenue function; Revenue curves under perfect and imperfect competition market; Relation between average and marginal revenue curves; and Relationship between price elasticity of demand and revenue.

Unit 7: Product Pricing Theories and Practices ----- 25 LHs

Market structure: concept and characteristics; Profit maximization goal of firm; Price and output determination under perfect competition: short-run and long-run equilibrium; Derivation of short run supply curve of a firm and industry; Price and output determination under monopoly: short-run and long-run equilibrium; economic effects of monopoly. Price and output determination under monopolistic competition: short-run and long-run equilibrium, monopolistic firm's equilibrium under product variation and selling expenses. Concept and types of cartel; Pricing under joint profit maximization cartel; and Pricing practices: price discrimination, cost plus pricing, incremental cost pricing, administered pricing, export pricing, predatory pricing, skimming pricing and penetration pricing.

Unit 8: Theory of Factor Pricing----- 15 LHs

Rent: modern theory of rent; Wages: marginal productivity theory of wages; Concept of collective bargaining; Minimum wages fixation; Wage differentials; Interest: Nominal and real interest rates; Interest rate differentials; Theories of interest: loanable funds theory of interest and liquidity preference theory of interest; Profit: economic profit and business profit; and Theories of profit: dynamic theory of profit and innovation theory of profit.

Suggested Readings

Mankiw, N. G. *Principles of Microeconomics*. New Delhi: Centage Learning India Private Limited, Latest edition

Koutsoyianis, A. *Modern Microeconomics*. Hong Kong: ELBS, Latest edition

McConnell, C.R., Brue, S.L., Flynn, S.M. and Grant, R. *Economics*. New Delhi: McGraw Hill Education, Latest edition

Salvatore, D. *Managerial Economics*. New Delhi: Oxford University Press, Latest edition
Slowman, J. and Sutcliffe, M. *Economics for Business*. New Delhi: Pearson Education.

Browning, E.K. and Browning, J.M. *Microeconomic Theory and Application*. New Delhi: Kalyani Publishers, Latest edition

Pindyck, R.S. and Rubinfeld, D. *Microeconomics*. New Delhi: Prentice Hall of India, Latest edition
Dwivedi, D.N. *Microeconomic Theory and Applications*. New Delhi: Tata McGraw-Hill Publishing Company Limited, Latest edition.