

# Microeconomics II

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# Microeconomics II

<https://elearning.tul.cz/course/view.php?id=8839>

## Credit:

Continuous control of the knowledge of lectured topics throughout the semester, evaluation of the activities during seminars.

## Exam:

One test in the half of the semester, one final test at the end of the semester. One retake in the first week of examination period. Sum of the two more successful tests generates the final score for grading.

## Consumer Behaviour Theory

- 1) Indifference analysis.
- 2) Effect of the change in income (ICC Curve, Engel's Curve, Engel's Expenditure Curve, the relationship with the income elasticity of demand).
- 3) Effect of changing the price on quantity demanded (PCC Curve). Breakdown of the price change into substitution and income effects. Individual demand curve.
- 4) Market demand, the bandwagon effect and snob effect.
- 5) Relationship between the shape of indifference curves and consumer's attitude to risk. Fair bet, fair and maximum insurance.

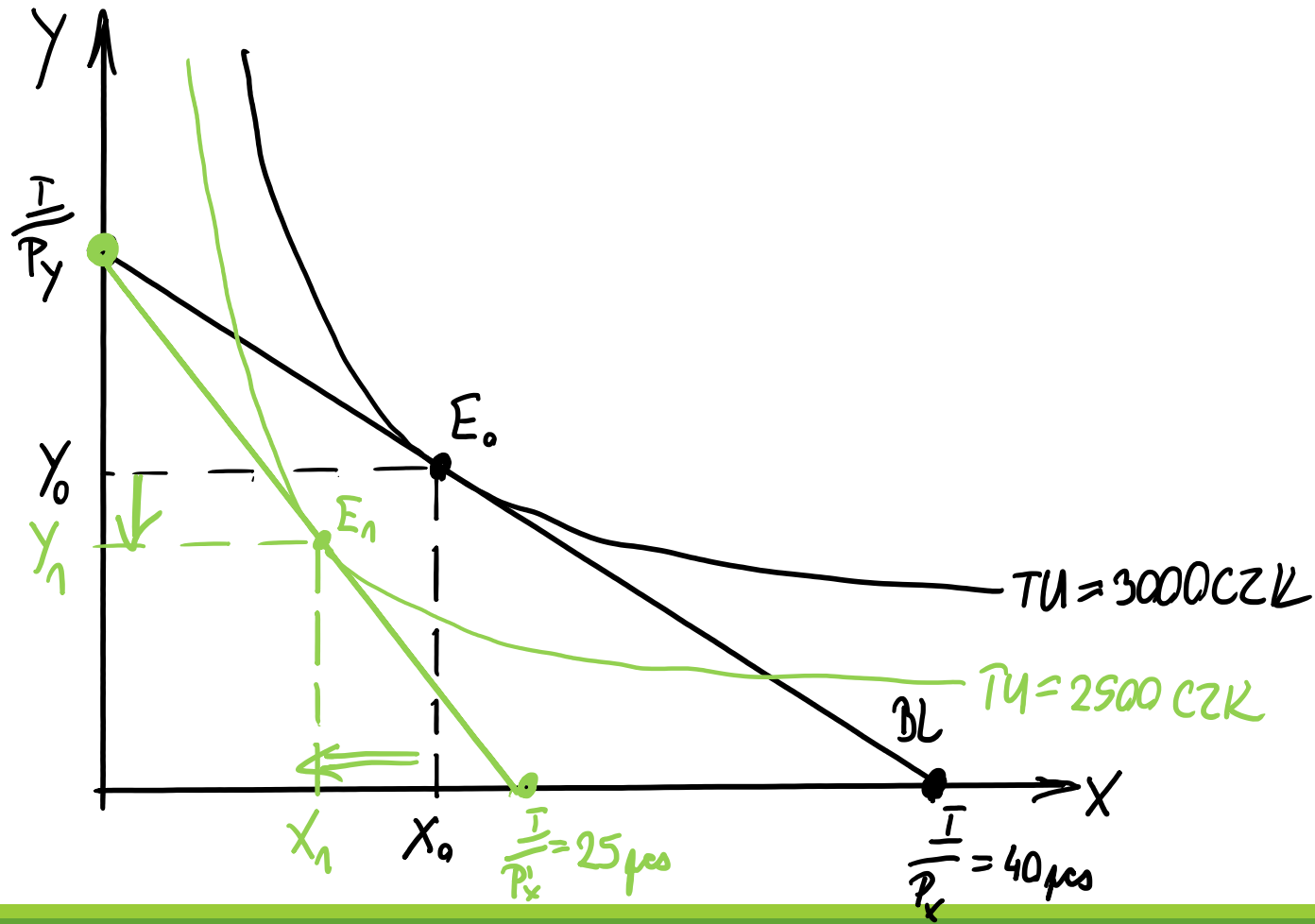
## Business Decision Theory

- 1) Short-term production function. Production stages of the firm in terms of labor and capital productivity. Impact of technological progress in labor productivity.
- 2) Isoquant analysis - the relationship between total costs over the short and long periods.

## Competitive Environment

- 1) Company's behavior in perfect competition in a long-term. Curve of long industry supply at different input prices.
- 2) Imperfect competition: Monopoly, three degrees of price discrimination by monopoly.
- 3) Imperfect competition: Conditions for termination of production (closing the company). Comparison of the point of termination of production in case of perfect and monopolistic competition in the short and long term.
- 4) Comparison of the allocation and production efficiency of the market for perfect competition and monopoly. Tools to eliminate the inefficiency of imperfect competitive markets (antimonopoly policy) and their effectiveness.

# Effects of Changing the Price on Quantity Demanded



$$BL: I = P_x \cdot X + P_y \cdot Y$$

$$\text{slope of } BL = MRS_E \leftarrow \frac{P_x}{P_y}$$

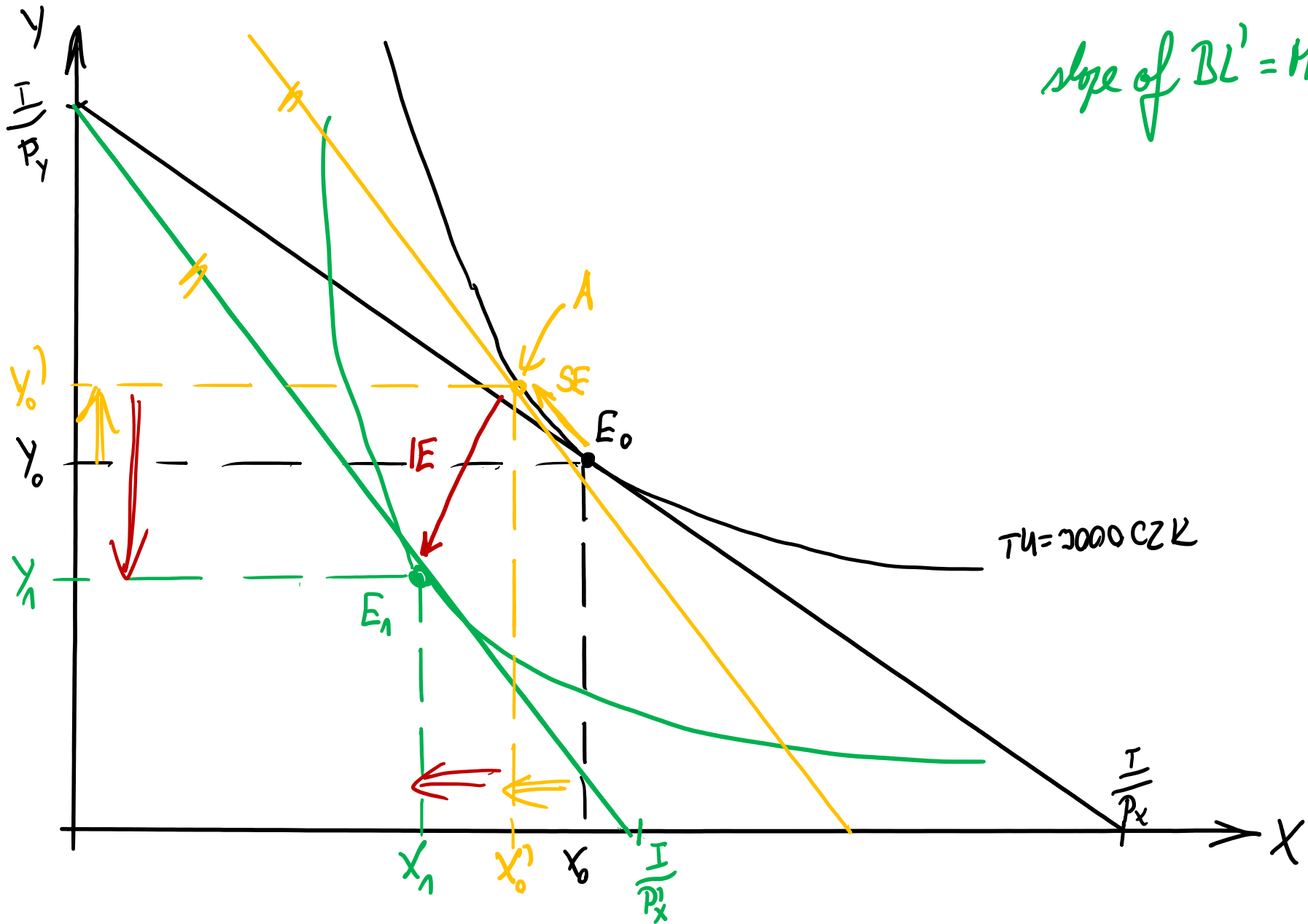
$$P_x = 25 \text{ CZK}$$

$$P_y = 50 \text{ CZK}$$

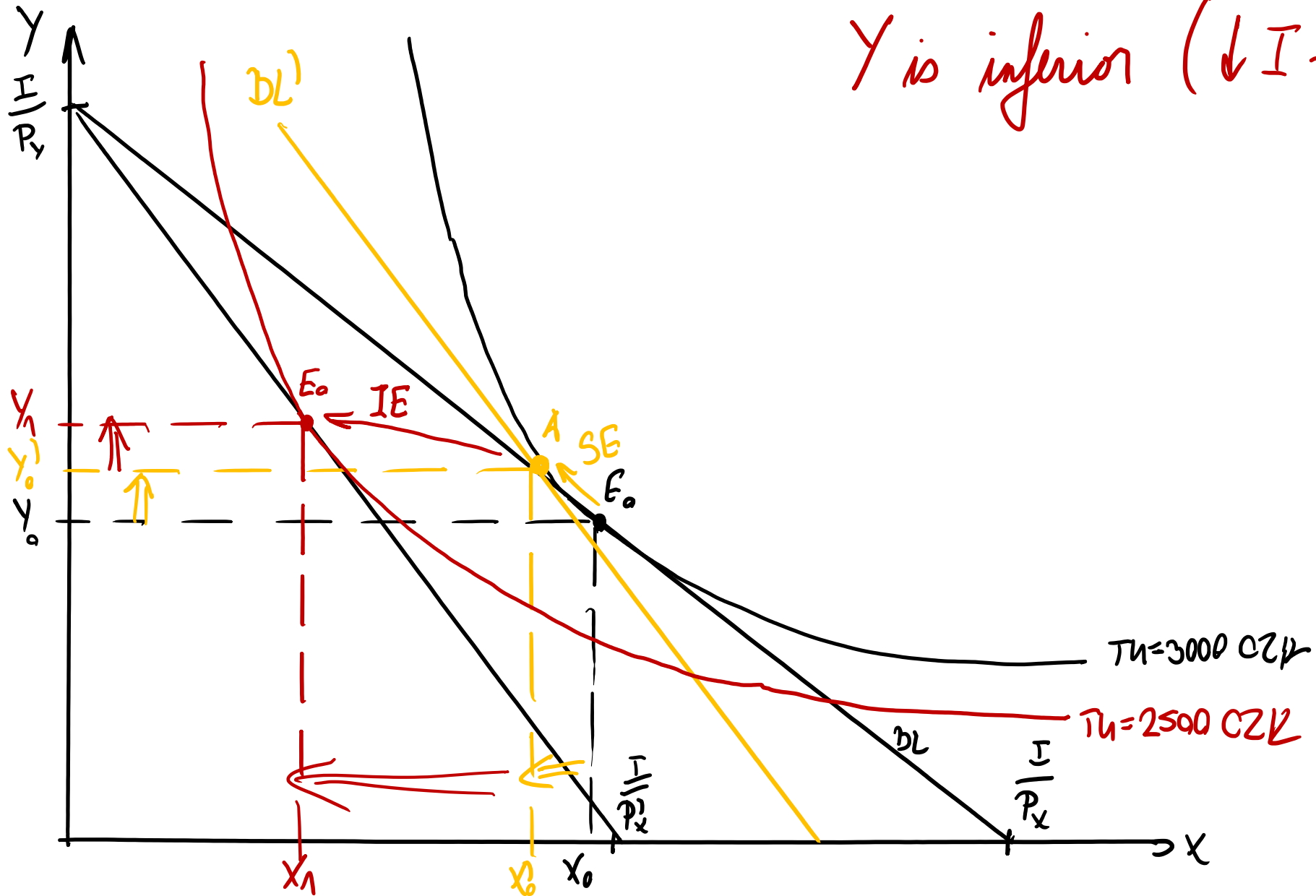
$$I = 1000 \text{ CZK}$$

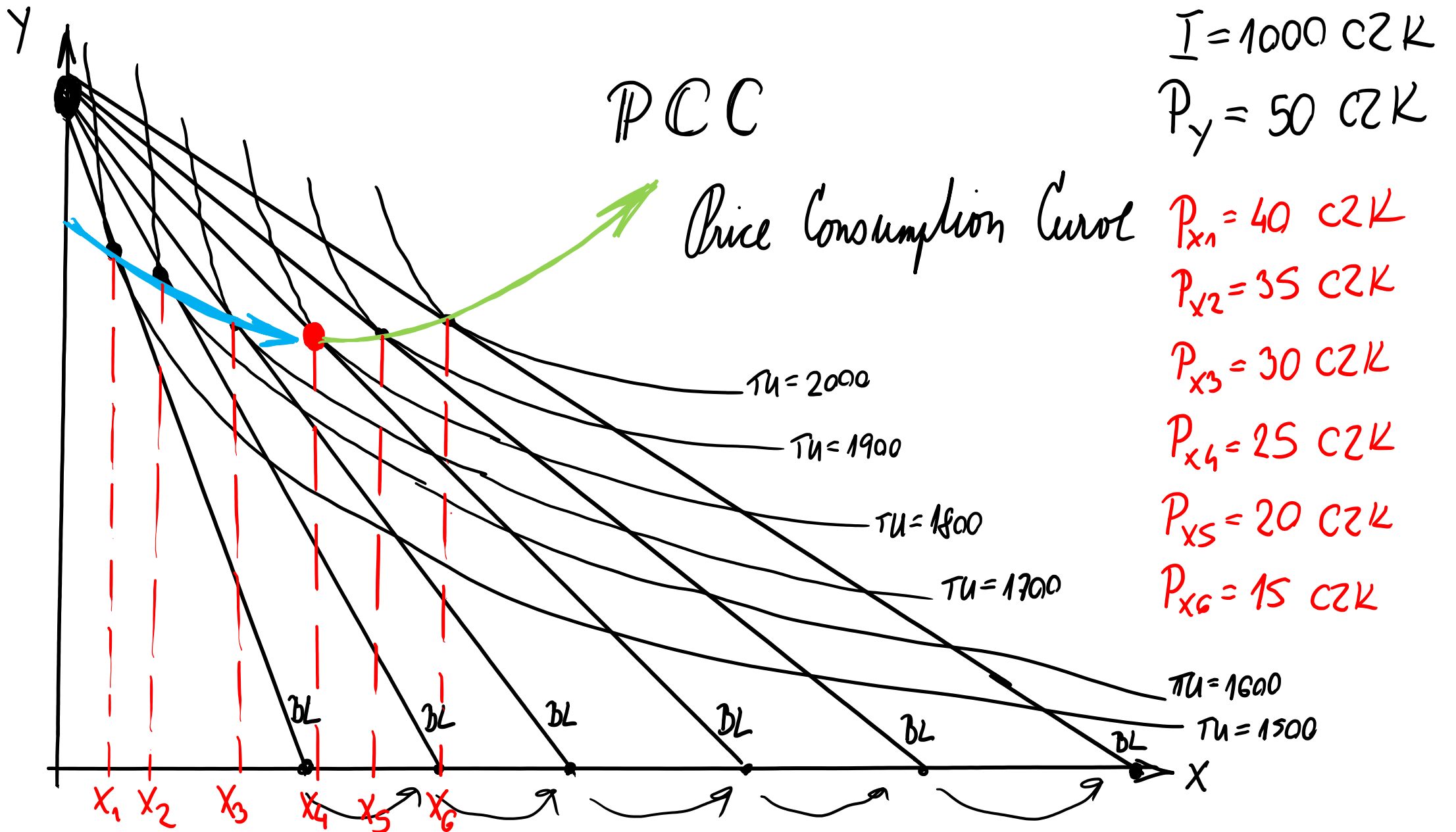
$$P_x^1 = 40 \text{ CZK}$$

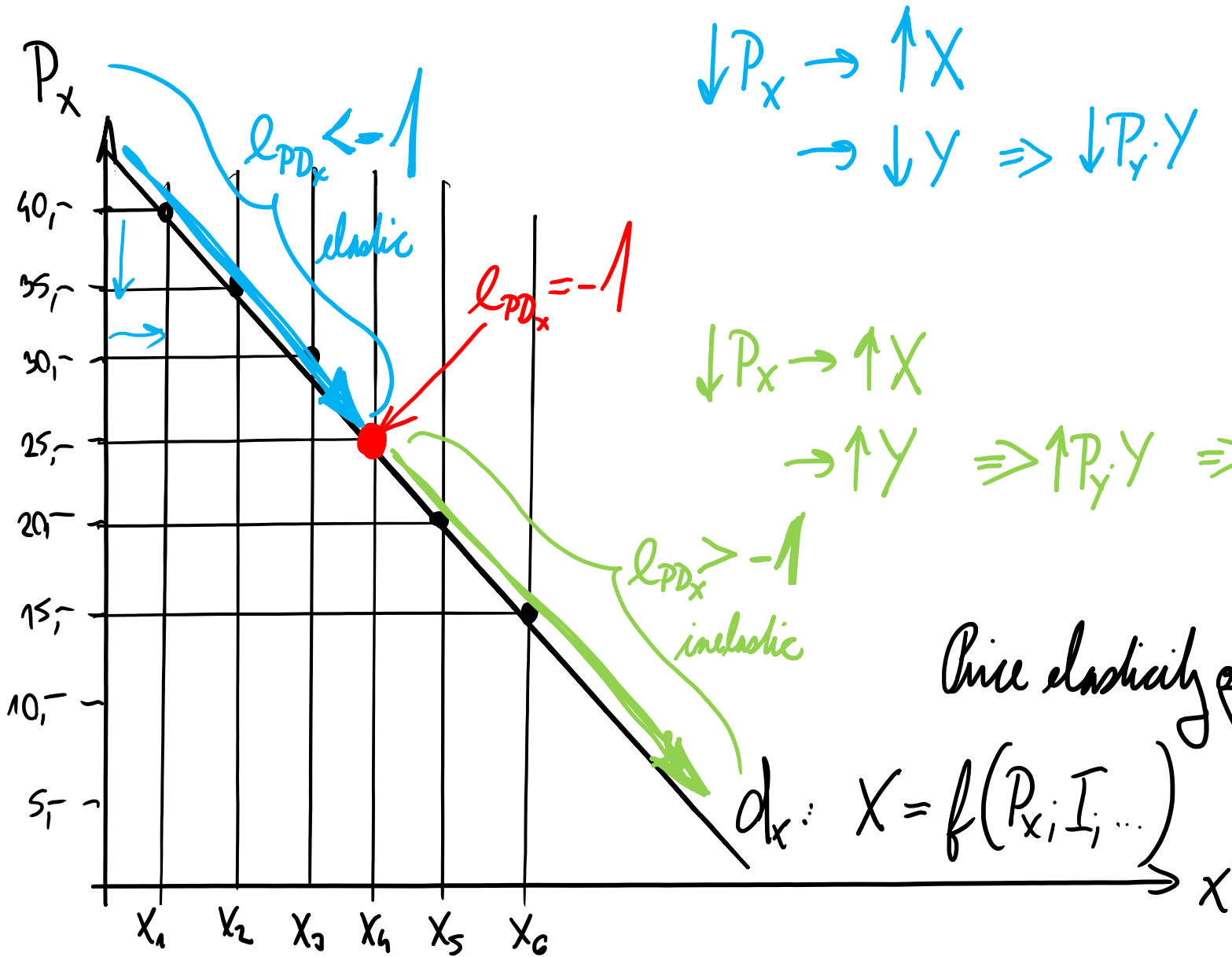
$$\text{slope of } BL' = MRS_E = \frac{P_x'}{P_y}$$



Y is inferior ( $\downarrow I \rightarrow \uparrow Y$ )







$\downarrow P_x \rightarrow \uparrow X$

$\rightarrow \downarrow Y \Rightarrow \downarrow P_y \cdot Y \Rightarrow \uparrow P_x \cdot X \Rightarrow \% \Delta P_x < \% \Delta X$   
sensitive to price  $P_x$

$\downarrow P_x \rightarrow \uparrow X$

$\rightarrow \uparrow Y \Rightarrow \uparrow P_y \cdot Y \Rightarrow \downarrow P_x \cdot X \Rightarrow \% \Delta P_x > \% \Delta X$   
insensitive to price  $P_x$

Price elasticity of demand:

$$l_{PD_x} = \frac{\% \Delta X}{\% \Delta P_x}$$

$$l_{PD_x} = \frac{\delta X}{\delta P_x} \cdot \frac{X}{P_x}$$