

Master in  
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Faculty of  
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Business Studies

University of  
Zaragoza

Microeconomics

“Introduction”

Prof. José  
Alberto Molina

# MICROECONOMICS

## INTRODUCTION

José Alberto Molina



**Grupo de Investigación en  
Economía de la Población, Mercado  
de Trabajo y Economía Industrial**

**Universidad** Zaragoza

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This course provides the basic and advanced microeconomic concepts that provide an understanding of individuals and households as economic units, which demand goods and services, offer productive resources and, finally, provide levels of well-being that determine the welfare of global society.



In this context, the course adopts a double approach: individual and household.

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The individual approach studies the individual microeconomic decisions, beginning with analysing these decisions on the basis of the foundations provided by the Ordinal Utility Theory.



After the foundations, we will study different unitary models of individual behaviour. We will distinguish among the separable and non-separable microeconomic models from the inter-temporal perspective.

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## PART I

### Unit 1: Unitary Approach: Foundations

- 1.1. Preferences and utility
- 1.2. The optimization problems
- 1.3. The profit function
- 1.4. Labour supply
- 1.5. Inter-temporal consumption

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## **Unit 2: Unitary Approach: Models**

### 2.1. Intra-temporal models

2.1.1. LES

2.1.2. AIDS

2.1.3. Rotterdam

2.1.4. Empirical evidence

### 2.2 Inter-temporal models

2.2.1. SNAP

2.2.2. Empirical evidence

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The underlying hypothesis in the unitary models, according to which we do not distinguish between the individual agent and the collective agent (household), implies certain drawbacks.



In methodological terms, the traditional assumption that subjective preferences are individual does not fit the normal structure of a household formed by a group of individuals with different preferences.

In this context, the unitary approach imposes a series of restrictions on the observed behavior, among which is that this approach does not allow for the establishment of the intra-household distribution of consumption, nor of productive resources and, consequently, of intra-household well-being.

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In this context, the unitary approach has given way in the literature to a new general approach, the household approach, concerned with analyzing matters related to intra-family negotiations.



In accordance with this household approach, the presence of individuals with different preferences is represented by the existence of, at least, two individual functions of utility, one for each spouse.



This general approach includes both cooperative and non-cooperative models.

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The fact that the father of the Economics of the Household, Gary Becker, received the 1992 Nobel Prize in Economics for his contributions in this area, provides sufficient evidence that its importance is recognized by the economics profession.



Becker put the household on the economics profession's agenda by identifying, in 1976, the three foundational assumptions of the economic approach to the household as “maximizing behaviour, market equilibrium, and stable preferences” (*The Economic Approach to Human Behavior*, University Chicago Press).



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In this context, economics should and does have some things to say about the interactions between households and markets.

## **PART II**

### **Unit 3: Household Approach: Facts**

3.1. Why form households?

3.2. The household structure: evolution and facts

After this Introductory unit, in which we justify the existence of the household and provide evidence of the evolution of the household structure, we identify two major household models: cooperative and non-cooperative.

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With respect to the household models, we begin by describing the theoretical fundamentals of the cooperative models: Pareto optimality.



We then examine the intra-temporal models: the cooperative approach divided in two sections: bargaining and threat points, and the Chiappori approach (demand for goods, labour supply and domestic production).

On the other hand, we study the non-cooperative models, focused on game theory and, particularly, on the the Cournot-Nash equilibria.

We will then study the inter-temporal models

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## **Unit 4: Household Approach: Foundations**

4.1. Pareto optimality

4.2. Externalities and public goods

4.3. The social welfare function

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## **Unit 5: Household Approach (I): Intra-Temporal Models**

5.1. The unitary approach in a household context

5.2. The cooperative model (I):  
bargaining and threat points

5.3. The cooperative model (II)  
the collective model

5.4. The non-cooperative model:  
Cournot-Nash equilibria

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There is a certain debate as to whether the cooperative approach or the non-cooperative approach is “correct”.



I do not see them as competitors. Each approach tells us something that the other cannot.  
Rather than thinking about the “correct” approach, we should consider the model that allows us to study the different aspects of the microeconomic behaviour of the units of demand, supply and equilibrium.

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## **Unit 6: Household Approach (II): Inter-Temporal Models**

6.1. The inter-generational model (I):  
Foundations and micro-econometric evidence

6.2. The inter-generational model (II)  
Experimental cooperation in social networks

6.3. The inter-temporal collective model

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Microeconomics

“Introduction”

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The course ends with some extensions (PART III). We first analyze the well-being of the population in order to provide indications of how this status can be improved. We also discuss implications of the household, and its members, when they interact with other society members, particularly with peers. We end with the study of different sectorial topics from a microeconomic perspective.

## **PART III**

### **Unit 7: Extensions**

7.1. Well-being in the population

7.2. The household and society

7.3. Sectorial topics (Education, health,...)

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“Introduction”

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To pass this course, the student will need to achieve:

- i. The capability of understanding the functioning of the economy from the microeconomic perspective.
- ii. The capability of analyzing the different decisions of individuals and households, as final users in the economic stream, with regard to their choices of demand goods and of resources offered, according to the alternative models of individual behavior.
- iii. The capability of understanding the ways of improving the well-being of society members from different microeconomic approaches.



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The learning process is based on theoretical and practical classes, as well as on tutorials, seminars with invited professors, and individual student research work.



The evaluation will be by means of a written exam at the end of the course, as well as through exercises, and the final research work. Class participation will be of influence in borderline cases.



The basic readings include power-points and publications by Professor Molina and others, particularly the text *Household Economic Behavior* (Ed, J.A. Molina, Springer, 2011).

Available at <http://dae.unizar.es/jamolina/index.htm>