Department of Economics
501 ECO Microeconomic Theory
MSc, Level1
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This course provides an introduction to microeconomic theory. It is intended for graduate students in the economics program. Some components of the course are designed to teach material that all graduate students should know while others are used to introduce methodologies. Topics of recent interest will also be covered and may include: theories of production and individual choice (under certainty and uncertainty); markets and competition; tools of comparative static and their application to price theory. There will be also an introduction to non-cooperative game theory, theory of general equilibrium and its applications and extensions. Other topics include: risk sharing, moral hazard, adverse selection (signaling, screening), mechanism design, decision making under uncertainty.

The main text for the course is

Hal Varian, Intermediate Microeconomics, 5th Edition (New York: W.W.Norton & Company, 1999) ISBN 0-393-97370-0

Other Textbooks:

The abbreviations in the table refer to the following textbooks:

MWG = Mas-Colell, Andreu, Michael Whinston, and Jerry Green. *Microeconomic Theory*. New York, NY: Oxford University Press, 1995. ISBN: 0195073401.

JR = Jehle, Geoffrey, and Philip Reny. *Advanced Microeconomic Theory*. 2nd ed. Reading, MA:Addison-Wesley,2000.ISBN:0321079167.
This book is more readable and still covers much of the course material in about half as much space.

Kreps, D. *A Course in Microeconomic Theory*. Princeton, NJ: Princeton University, 1990. ISBN: 0691042640.

Supplementary readings include lecture notes, which I will distribute as we proceed, as well as journal articles and selections from other books.

This course is a communications intensive subject. Assignments include six problem sets (approximately one every second week) and one Essay. The problem sets will count for a total of 20% of the final grade. The Essay will count for 30%. There will also be a midterm and a final examination, which will count for 25% of the grade each.

#	TOPICS	READINGS
Part I. Utility Functions and Decision-making		
L1	Preferences, Utility Functions, Revealed Preference	MWG, sections 1.B-1.D. JR, sections 1.2 and 2.3. Carson, Richard T., Leanne Wilks, and David Imber. "Valuing the Preservation of Australia's Kakadu Conservation Zone." *Oxford Economic Papers* (1994): 727-749. Diamond, Peter, and Jerry Hausman. "Contingent Valuation: Is Some Number Better than No Number?" *Journal of Economic Perspectives* (Autumn 1994): 45-64. Andreoni, James, and John Miller. "Giving According to GARP." *Econometrica* (March 2002). Duflo, Esther. "Grandmothers and Granddaughters: Old Age Pensions and Intrahousehold Allocation in South Africa." *World Bank Economic Review* (2003).
L2	Preferences, Utility Functions, Revealed Preference (cont.) Choice Under Uncertainty	*Preferences, Utility Functions, Revealed Preference* MWG, sections 1.B-1.D. JR, sections 1.2 and 2.3. Carson, Richard T., Leanne Wilks, and David Imber. "Valuing the Preservation of Australia's Kakadu Conservation Zone." *Oxford Economic Papers* (1994): 727-749. Diamond, Peter, and Jerry Hausman. "Contingent Valuation: Is Some Number Better than No Number." *Journal of Economic Perspectives* (Autumn 1994): 45-64. Andreoni, James, and John Miller. "Giving According to GARP." *Econometrica* (March 2002). Duflo, Esther. "Grandmothers and Granddaughters: Old Age Pensions and Intrahousehold Allocation in South Africa." *World Bank Economic Review* (2003). *Choice Under Uncertainty* MWG, section 6.B. JR, sections 2.4.1-2.4.2.
L3	Risk Aversion	MWG, sections 6.C-6.D. JR, section 2.4.3.
L4	Problems With Utility Theory	MWG, section 6.F. Rabin, Matthew. "Risk Aversion and Expected Utility Theory: A Calibration Theorem." *Econometrica* (September 2000): 1281-1292. Kahnemann, Daniel, and Amos Tversky. "Prospect Theory: An Analysis of Decision Under Risk." *Econometrica* (March 1979): 263-292. Harless, David W., and Colin Camerer. "The Predictive Utility of Generalized Expected Utility Theories." *Econometrica* (November 1994): 1251-1289. List, John A. "Neoclassical Theory versus Prospect Theory: Evidence from the Marketplace." *Econometrica* (March 2004): 615-625.

Part II. Demand Theory			
L5	Classical Demand Theory	MWG, sections 2.B-2.E, 3.D-E, and 3.G-H. JR, sections 1.3, 1.5.3, 1.4, 2.1, and 1.5.	
L6	Classical Demand Theory (cont.)	MWG, sections 2.B-2.E, 3.D-E, and 3.G-H. JR, sections 1.3, 1.5.3, 1.4, 2.1, and 1.5.	
L7	Classical Demand Theory (cont.) Demand Aggregation	*Classical Demand Theory* MWG, sections 2.B-2.E, 3.D-E, and 3.G-H. JR, sections 1.3, 1.5.3, 1.4, 2.1, and 1.5. *Demand Aggregation* MWG, sections 4.A, 4.B, and 4.D. JR, section 2.2.	
R1	Price Changes and Welfare	MWG, section 3.I. JR, section 4.3.1. Hausman, Jerry. "Valuation of New Goods under Perfect and Imperfect Competition." In *The Economics of New Goods*. Edited by T. F. Bresnahan and R. J. Gordon, 1997. (NBER WP 4970 version). Gordon, Robert J. "The Boskin Commission Report and Its Aftermath." NBER Working Paper 7759, National Bureau of Economic Research, Cambridge, MA, 2000.	
Part III. Producer Theory			
L8	Monopoly Pricing	MWG, section 12.B. JR, section 4.2.0.	
L9	Competitive Producer Theory and Robust Comparative Statics	MWG, sections 5.B-5.C. JR, section 3.5. Athey, Susan, Paul Milgrom, and John Roberts. "Robust Comparative Statics." Unpublished monograph, 1998, sections 2.1, 2.2, and 2.6, pp. 1-8. Azar, Ofer. "The Slowdown in First-Response Times of Economics Journals: Can it Be Beneficial." *Economic Inquiry* (2007).	
L10	Competitive Producer Theory and Robust Comparative Statics (cont.)	MWG, sections 5.B-5.C. JR, section 3.5. Athey, Susan, Paul Milgrom, and John Roberts. "Robust Comparative Statics." Unpublished monograph, 1998, sections 2.1, 2.2, and 2.6, pp. 1-8. Azar, Ofer. "The Slowdown in First-Response Times of Economics Journals: Can it Be Beneficial." *Economic Inquiry* (2007).	
Part IV. Partial Equilibrium Competitive Markets			
L11	Competitive Equilibrium	MWG, section 10. JR, section 4.1.	

Other topics:

#	TOPICS	READINGS
1	Existence and Optimality of General Equilibrium	Kreps, D. Chapters 6 and 8. Varian, H. Chapters 17, 18, 21.2, and 21.3. Mas-Colell, A., M. Whinston, and J. Green. Chapters 10, 15, 16, and 17. Diamond, P., and D. McFadden. "Some Uses of the Expenditure Function in Public Finance." *Journal of Public Economics* 3, no. 1 (February 1974): 3-21. Moss, W. "Some Uses of the Expenditure Function in Public Finance: A Comment." *Journal of Public Economics* 5, nos. 3-4 (April-May 1976): 373-379. *Suggested Readings* Debreu, G. *Theory of Value: An Axiomatic Analysis of Economic Equilibrium*. New York, NY: Wiley, 1959, pp. 98-102. Reprinted in *Uncertainty in Economics: Readings and Exercises.* Edited by Peter A. Diamond and Michael Rothschild. San Diego, CA: Academic Press, 1989. ISBN: 0122148517. Arrow, K., and F. Hahn. *General Competitive Analysis.* San Francisco, CA: Holden-Day, 1971. ISBN: 0816202753. Mas-Colell, A. *The Theory of General Economic Equilibrium: A Differentiable Approach*. Cambridge, UK: Cambridge University Press, 1985. ISBN: 0521265142. Blackorby, C. "Economic policy in a second-best environment." *Canadian Journal of Economics* 23, no. 4 (1990): 748-771. Gul, F., and E. Stacchetti. "Walrasian Equilibrium with Gross Substitutes." *Journal of Economic Theory* 87, no. 1 (1999): 95-124.
2	The Core and Convergence Theorem	Mas-Colell, Whinston, and Green. Chapter 18B. *Suggested Readings* Hildenbrand, W., and A. Kirman. *Equilibrium Analysis: Variations on themes by Edgeworth and Walras.* New York, NY: Elsevier, 1988, chapter 1. ISBN: 0444705112. Debreu, G., and H. Scarf. "A Limit Theorem on the Core of an Economy." *International Economic Review* 4, no. 3 (September 1963): 235-246.
3	Arrow's Impossibility Theorem	Kreps. Chapter 5. Mas-Colell, Whinston, and Green. Chapter 21A-C. *Suggested Readings* Arrow, K. *Social Choice and Individual Values*. 2nd ed. New York, NY: Wiley, 1963. Sen, A. "Social Choice." In *The New Palgrave: A Dictionary of Economics.* Edited by John Eatwell, Murray Milgate, and Peter Newman. Vol. 4. London, UK: Macmillan, 1987. ISBN: 0333372352. Geanakoplos, J. *Three Brief Proofs of Arrow's Impossibility Theorem.* New Haven, CT: Cowles Foundation for Research in Economics, 1996. (Discussion paper no. 1123R.) Ubeda, L. "Condorcet Paradox and Arrow's Impossibility Theorem." Unpublished.

4	Externalities and Public Goods	Kreps. Chapters 6 and 8.
		Varian. Chapters 23 and 24.
		Mas-Colell, Whinston, and Green. Chapter 11.
		Dasgupta, P., and G. Heal. Chapter 3 in *Economic Theory and Exhaustible Resources.* Cambridge, UK: Cambridge University Press, 1979. ISBN: 0720203120.
		Farrell, J. "Information and the Coase Theorem." *Journal of Economic Perspectives* 1, no. 2 (Fall 1987): 113-129.
		Diamond, P. "Consumption Externalities and Imperfect Corrective Pricing." *Bell Journal of Economics and Management Science* 4, no. 2 (Autumn 1973): 526-538.
		Dixit, A., and M. Olson. "Does Voluntary Participation Undermine the Coase Theorem?" *Journal of Public Economics* 76, no. 3 (June 2000): 309-335.
		Kaplow, L., and S. Shavell. "On the Superiority of Corrective Taxes to Quantity Regulation." Cambridge, MA.: John M. Olin Center for Law, Economics, and Business, Harvard Law School, 1997. (Discussion Paper no. 215.)
		Suggested Readings
		Green, J., and E. Sheshinski. "Direct vs. Indirect Remedies for Externalities." *Journal of Political Economy* 84, no. 4, pt. 1 (August 1976): 797-808.
		Sheshinski, E. *Note on Atmosphere Externality and Corrective Taxes*. Jerusalem, Israel: Center for Rationality and Interactive Decision Theory, Hebrew University, October 1995. (Discussion Paper no. 84.)
		Lipsey, R. G., and K. Lancaster. "The general theory of the second-best." *Review of Economic Studies* 24, no. 1 (1956): 11-32.
		Weitzman, M. "Free Access vs. Private Ownership as Alternative Systems for Managing Common Property." *Journal of Economic Theory* 8, no. 2 (June 1974): 225-234.
		———. "Prices vs. Quantities." *Review of Economic Studies* 41, no. 4 (October 1974): 477-492.
		Coase, R. "The Problem of Social Cost." *Journal of Law and Economics* 3, no. 1 (October 1960): 1-44.
		Laffont, J. J. <u>*Fundamentals of Public Economics*</u>. Cambridge, MA: MIT Press, 1988, chapter 1. ISBN: 0262121271
5	Intertemporal Competitive Equilibrium	Kreps. Chapter 6, Section 5.
		Varian. Chapter 19.
		Mas-Colell, Whinston, and Green. Chapter 20.
6	Uncertainty with Complete Markets	Varian. Chapter 6, Section 5.
		Varian. Chapter 20.
		Mas-Colell, Whinston, and Green. Chapter 19, Parts A-E.
		Suggested Readings

		Arrow, K. "The Role of Securities in the Optimal Allocation of Risk-Bearing." *Review of Economic Studies* 31 (1963-1964): 91-96. Debreu, G. "Theory of Value." In *Uncertainty in Economics*: *Readings and Exercises*. Edited by Peter A. Diamond and Michael Rothschild. San Diego, CA: Academic Press, 1989. ISBN: 0122148517. Dasgupta, P., and G. Heal. *Economic Theory and Exhaustible Resources.* Cambridge, UK: Cambridge University Press, 1979, chapters 4 and 6. ISBN: 0521297613. Hirshleifer, J., and J. G. Riley. *The Analytics of Uncertainty and Information*. Cambridge, UK: Cambridge University Press, 1992. ISBN: 0521283698. Malinvaud, E. "The Allocation of Small Risks in Large Markets." *Journal of Economic Theory* 4 (1972): 312-328.
7	Incomplete Markets	Diamond, P. "Efficiency with Uncertain Supply." *Review of Economic Studies* 47, no. 4 (July 1980): 645-651. ———. "The Role of a Stock Market in a General Equilibrium Model with Technological Uncertainty." *American Economic Review* 57, no. 4 (September 1967): 759-776. Reprinted in *Uncertainty in Economics: Readings and Exercises*. Edited by Peter A. Diamond and Michael Rothschild. Rev. ed. San Diego, CA: Academic Press, 1989. ISBN: 0122148517. Mas-Colell, Whinston, and Green. Chapter 19, Parts F and G. Hirshleifer, J. "The Private and Social Value of Information and the Reward to Inventive Activity." *American Economic Review* 61, no. 4. (September 1971): 561-574. Reprinted in *Uncertainty in Economics: Readings and Exercises*. Edited by Peter A. Diamond and Michael Rothschild. Rev. ed. San Diego, CA: Academic Press, 1989. ISBN: 0122148517. *Suggested Readings* Magill, Michael, and Martine Quinzii. <u>Theory of Incomplete Markets</u>. Cambridge, MA: MIT Press, 1996. Hart, O. "On the Optimality of Equilibrium When the Market Structure Is Incomplete." *Journal of Economic Theory* 11 (December 1975): 418-443. Loong, L. H., and R. Zeckhauser. "Pecuniary Externalities Do Matter When Contingent Claims Markets are Incomplete." *Quarterly Journal of Economics* 97, no. 1 (February 1982): 171-179. Stiglitz, J. "The Inefficiency of Stock Market Equilibrium." *Review of Economic Studies* 49, no. 2 (1982): 241-261. Geanakoplos, J. "An Introduction to General Equilibrium with Incomplete Asset Markets." *Journal of Mathematical Economics* 19, no. 1 (1990): 1-38. Makowski, L. "Perfect Competition, The Profit Criterion, and the Organization of Economic Activity." *Journal of Economic Theory* 22 (1980): 222-242. Acemoglu, D., and F. Zilibotti. "Was Prometheus Unbound by Chance? Risk, Diversification and Growth." *Journal of Political Economy* 105, no. 4 (1997): 709-751. Bisin, A. "General Equilibrium and Endogenously Incomplete Financial Markets." *Journal of Economic Theory* 82, no. 1 (1998): 19-45.