Economics 801
Microeconomic Theory I – Consumers and Markets

Fall 2016

When: Mondays and Wednesdays, 2:00-3:15 PM
Where: Bolton B76
Professor: Scott Drewianka
E-mail: sdrewian@uwm.edu
Office: Bolton 886
Office Hours: Mondays and Wednesdays, 3:30-5:00 PM

Prerequisites: None, but Economics 506, 606, and 701 (or equivalent courses elsewhere) are strongly recommended.

Goals of This Course: This course is the first Ph.D. level microeconomic theory course at this university. It is designed to be taken in conjunction with Economics 803, and together they serve as a foundation for advanced field courses. Students will become proficient with the tools and methodology of microeconomic theory and familiar with useful models and results. While we shall stress the importance of rigor, substantial emphasis will be given to the practical uses of economic theory, particularly in an applied context.

Grading: Grades will be based on a midterm and final exam (40 percent each), homework (15 percent), and participation (5 percent).

Exams: Midterm: Wednesday, November 2
Final: Wednesday, December 21, 12:30-2:30 PM (NOTE THE SPECIAL TIME.)

Expected time commitment: Plan to spend considerably more time than usual on this and all courses in the Ph.D. Core Sequence. While there will undoubtedly be great variation across students, the following is an approximate breakdown of time spent in Econ 801 by an average successful student:

- Class meetings and final exam (3 hours/week): 48 hours
- Problem sets (8 @ 2 hours each): 16 hours
- Reading and additional study (8 hours/week): 128 hours
  Total: 192 hours across the semester

You are strongly advised not to shortchange yourself in this respect. This material is not only critical for the course itself, but also for the preliminary exams you will take next summer and for all subsequent courses – indeed, even for your career as a researcher. Time spent mastering this material thus has an unusually high expected return, and you are encouraged to invest in it accordingly.

Homework: The purpose of homework is not to test your understanding (that is what exams are for), but rather to develop it. Mistakes are an opportunity to learn, provided that one puts in some thought and effort. Accordingly, full credit will be awarded on homework assignments whenever it is apparent that the student made a good-faith effort to solve the assigned problems, regardless of whether the student was ultimately successful. Students may work together but must submit their own work. Late work will not be accepted. A packet containing all of the assignments for the semester can be downloaded from the course webpage on D2L.

Department/University Policies and Procedures: The Economics Department and UWM maintain official policies on academic conduct, incompletes, grade appeals and other complaints, participation by students with disabilities, accommodation of religious observances, sexual harassment, and other matters. Information on these policies is available in the Economics Department main office, or at http://www4.uwm.edu/secu/SyllabusLinks.pdf. All such policies are important, but please take special note of the policy on academic misconduct: http://www4.uwm.edu/acad_aff/policy/academicmisconduct.cfm. Students needing accommodations of any sort (including for disabilities or religious observances) should notify me during the first two weeks of class.

H1N1 Virus Preparedness: As you may be aware, public health officials are concerned about a possible pandemic caused by the H1N1 virus (“swine flu”). Since the disease is spread primarily by personal contact, the University politely asks students not to shake hands, share food, and or take other actions that could transmit the virus. Please report illnesses via e-mail rather than in person.

In the event of disruption of normal classroom activities due to an H1N1 swine flu outbreak, the format for this course MAY be modified to enable completion of the course. You would then be given an addendum to this syllabus that will supersede this version.
Course Outline and Reading List


ALL READINGS LISTED BELOW CAN BE DOWNLOADED FROM THE COURSE PAGE ON D2L (UNDER THE MODULE “READINGS”)

I. Introduction to Microeconomic Theory
   A. Purpose
   B. Distinguishing characteristics and methodology

   **Readings:**

   **Optional:**


II. Elements of Individual Optimization
   A. Producer optimization, supply, and profit
   B. Consumer optimization and demand theory
   C. Advanced topics in demand theory
      1. Demand systems
      2. Restrictions and observable implications of demand theory

   **Readings:**
   Deaton and Mulleubauer, Chapters 1-3.
   Varian, Chapters 1-10, 12, 27.
   Mas-Colell *et al.*, Chapters 1-3, 5.

   **Optional:**

III. Risk
   A. Risk versus (Knightian) uncertainty
   B. Expected utility and the von Neumann-Morgenstern utility function
   C. Measurement of risk preferences: absolute and relative risk aversion
   D. Pratt’s Theorem: Three equivalent methods of measuring risk aversion
   E. Increasing risk: stochastic dominance and mean-preserving spreads
   F. Variation on risk preferences: State-dependent utility

   **Readings:**
   Mas-Colell *et al.*, Chapter 6.
   Deaton and Mulleubauer, Chapter 14.

   **Optional:**
IV. Intertemporal Economics and Investments

A. Investment without uncertainty
   1. Consumption smoothing
   2. Investment in specific assets over the business cycle

B. Investment under uncertainty
   i. Arrow-Debreu markets and no-arbitrage pricing
   ii. Capital Asset Pricing Model
   iii. Option value and the Black-Scholes Theorem

C. Variations on intertemporal preferences
   i. Hyperbolic discounting
   ii. Rational addiction

Readings:
Mas-Collel et al., Chapters 19A-E and 20A-B.
Deaton and Muellbauer, Chapters 4.2, 12-13

Optional:
V. General Equilibrium, Pareto Efficiency, and Welfare
   A. Pareto efficiency
   B. Walrasian equilibrium
   C. The first welfare theorem
   D. Other argument against planning
      i. Hayek’s “Use of Knowledge”
      ii. Political economy
   E. Violations of assumptions: overview
      i. Transactions costs and incomplete markets
      ii. Imperfect competition and strategic considerations
      iii. Asymmetric Information
   F. Distributional concerns and the second welfare theorem
   G. Utilitarian social welfare functions and competitive equilibria

Readings:
Mas-Colell et al., Chapters 15-16, 17A-C.

Optional:

VI. Incomplete Markets I: Externalities, Public Goods, and Interpersonal Preferences
   A. Externalities
   B. The Coase Theorem and property rights
   C. Pigouian taxes
   D. Public and club goods
   E. Property crime
   F. Interpersonal preferences
      1. Social effects and network externalities
      2. Rank-dependent tastes and prizes
      3. Altruism and discrimination

Readings:
Mas-Colell et al., Chapter 11.

Optional:
VII. Matching and Search Models
A. Matching with prices
B. Matching without prices
C. Search

Readings:
Deaton and Muellbauer, Chapter 14.5.


Optional:


VIII. Incomplete Markets II: Goods as Bundles of Commodities
A. Household Production
B. Hedonic Pricing

Readings:
Deaton and Muellbauer, Chapter 10.

Optional:
