

WWS511d: Microeconomic Analysis (Accelerated)

Course Syllabus

Instructor:

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Office Hours: Mondays 1:30 – 3:00pm

Course Objectives:

This course presents key concepts from microeconomic theory at a fairly high level of abstraction – with an eye to policy analysis. The goal is to make you comfortable with the models and arguments that the professional literature uses to describe and prescribe policy.

The course is intended for students who familiar with the contents of a good calculus based intermediate microeconomics microeconomic course. It presumes multivariate calculus, (including constrained optimization), basic probability, and some familiarity with linear algebra.

Textbook:

No text book is perfect. While we will not follow it slavishly we will use (and you should own) H. Varian, *Microeconomic Analysis*, W.W. Norton & Company 3/E, 1992: You may find it useful to consult other textbooks for alternative treatments of concepts that you find difficult. Among the many advanced microeconomic textbooks are:

- B R. Binger, E Hoffman, *Microeconomics With Calculus*, 2/E, Addison-Wesley
- G.A. Jehle, P.J.Reny, *Advanced Microeconomic Theory*, Addison-Wesley, 2000
- Mas-Colell, M.D. Whinston and J.R. Green, *Microeconomic Theory*, New York and Oxford, Oxford University Press, 1995

Organization and Grading

Microeconomics is a technical subject and I will lecture; our class is small enough that we can discuss the implications of theory for policy. Each student will present to the class one policy oriented paper.

Most students find learning by doing essential to understanding advanced microeconomics. I will assign problem sets roughly biweekly These will be lightly graded (check, check+, check-). **I encourage you to work together on them, however everyone must write up and turn in their own problem sets.**

There will be an in-class midterm and a final exam. Grades will be a weighted average of your work with the following weights:

Midterm Exam	30%
Final Exam	50%
Paper Presentation	15%
Problem sets	5%

Tentative Course Schedule

The schedule below is tentative. How many student presentations we have will depend on enrollment. More readings from Varian will be assigned. The other readings will be changed as I get to know you better.

- 9/13 Introduction: Consumer behavior and demand functions. Varian 7.1 -7.2
- 9/15 Implications of the budget constraint. Homotheticity, and irrationality.
Varian pp. 144 - 150.
- 9/20 More Implications of the budget constraint. Hedonics; aggregation, labor supply.
Problem set 1 due
- 9/22 Rationality. Money Illusion and Framing Student presentation.
Save More Tomorrow: Using Behavioral Economics to Increase Employee Saving; By Thaler, Richard H.; Benartzi, Shlomo; Part 2 Supplement Feb. 2004, v. 112,
The Impact Of Presumed Consent Legislation On Cadaveric Organ Donation:A Cross Country Study Alberto Abadie Sebastien Gay NBER Working Paper 10604 June 2004
- 9/27 Pareto optimality: prices and arbitrage. Problem set 2 due
- 9/29 Exchange economies; Existence of equilibrium for an exchange economy;.The Sonnenschein theorem
- 10/4 Wimp welfare economics: The first and second welfare theorems. Tax distortions -
- if it moves don't tax it. Problem set 3 due
- 10/6 Alternatives to wimp welfare economics. Caring about income distribution;
Incorporating political judgments.
- 10/11 Rationality and paternalism; smoking and social security. Student presentation.
Problem set 4 due
Peter Diamond, *Social Security*, **The American Economic Review** , March 2004
Do Cigarette Taxes Make Smokers Happier?; By, Jonathan Gruber; and Sendhil

- Mullainathan, , 2002, National Bureau of Economic Research, Inc, NBER
Working Papers: 8872
- 10/13 Uncertainty; Decision making under uncertainty; a normative theory a descriptive theory or what?
- 10/18 Comparative statics and analysis of big changes Student presentation.
Mendelsohn, R, Nordhaus, W and Shaw, D. *The Impact of Global Warming on Agriculture: A Ricardian Analysis*; **American Economic Review**, September 1994,
- 10/20 MIDTERM
- 11/1 Production functions, returns to scale and the classical theory of the firm. .Problem set 5 due
- 11/3 Firm boundaries, decentralization
- 11/8 Monopoly, the quiet life and dynamic efficiency: Student presentation. Problem set 6 due Bertrand, Marianne and Mullainathan, Sendhil. "Enjoying the Quiet Life?" **Journal of Political Economy** 2004
- 11/10 Information and adverse selection
- 11/15 Adverse selection. Is it a real problem? Student Presentation Problem set 7 due Cutler, D. **Your Money or your Life?** Chapters 1 and 10. 2004 Adverse Selection in Insurance Markets: Policyholder Evidence from the U.K. Annuity Market; By Finkelstein, Amy; Poterba, James; Journal of Political Economy, Part 1 Feb. 2004, v. 112. 1, pp. 183-208
- 11/17 Introduction to game theory, Cournot and Nash Equilibrium.
- 11/22 Principal Agent problems Malpractice insurance. Problem set 8 due
- 11/24 Hard problems in cost benefit analysis, I.
Martin L. Weitzman, *Pricing The Limits To Growth From Minerals Depletion*; **Quarterly Journal of Economics** 1999
- 11/ 29 Hard problems in cost-benefit analysis. Problem set 9 due.
Martin Weitzman *Discounting a Distant Future Whose Technology is Unknown*, _ working paper, 2004,
- 12/1 Political Economy
- 12/8 Review