Microeconomics II: ECON 513 Section 1

Spring 2015
University of New Mexico
M 5:00PM-7:45PM
ECON 1052

Prof. Shana M. McDermott
Economics Building Room 1026
Office Hours: W 2:30-4:30 or by appointment
mcdermott@unm.edu
www.shanamcdermott.weebly.com

Course Description:
This course is a continuation of microeconomic theory, including general equilibrium theory, decision making under uncertainty, and introduction to game theory.

Objective:
We will focus on general equilibrium of competitive markets, efficiency conditions and welfare theory, how markets fail including externalities and public goods, and how societies address these failures (government interventions). We will also look at decision making under uncertainty, focusing on expected utility theory and endogenous probability. Last, we will examine the fundamentals of game theory and the theory of strategic interaction between people.

Course Prerequisites:
It is expected that the student will have completed both ECON 501 and ECON 504.

Recommended Textbooks:
General Equilibrium Theory: An Introduction by Ross M. Starr (1st or 2nd edition)
Microeconomic Theory by Hal R. Varian
Games of Strategy by A. Dixit and S. Skeath (latest edition)
Game Theory for Applied Economists by Robert Gibbons

Additional Textbooks (Good for your bookshelf):
Microeconomic Theory by A. Mas-Colell, M. Whinston and J. Green
Games and Information: An Introduction to Game Theory 4th Edition by Eric Rasmusen

Grading Policy and Course Requirements:
The final grade for the course will be determined as follows:

Task	Percentage of Final Grade (%)
Homework	40%
Midterm I (Monday, February 24th)	30%
Final exam (Monday, May 4th 5pm-8pm)	30%

Exam and Assignment Policy:
No make-up homework or exams.

Attendance Policy:
Attendance is not required; however, you should attend class on a regular basis. Missing class means you miss assignments as well as material, discussion, and important announcements. If you miss a class meeting, you are expected to obtain notes and other material on your own. Students will be notified of class cancellations by class announcements and email if necessary.

Group Work Policy:
Working in groups while solving homework problems and preparing for the exams is encouraged, but each student MUST submit his or her individual answer for homework assignments. ***Any academic dishonesty will minimally result in an "F" for the assignment, and will be prosecuted to the fullest extent University Regulations allow. For more information, please refer to the Academic Dishonesty section below.***

Class Announcements:
E-mail will be used to make class announcements/post assignments.

Academic Dishonesty:
Academic dishonesty, or "cheating", will not be tolerated in this class and will be dealt with in accordance with the *Student Code of Conduct*. Academic dishonesty will result in a permanent "F" in any course as a minimum outcome, and will almost certainly result in additional sanctions as permitted under University Regulations. The current University Regulations can be found at:
http://pathfinder.unm.edu/campus-policies/student-code-of-conduct.html#studentcode.

Accessibilty:
For any qualified student requiring arrangements for exam accommodation, a notetaker, etc. from Accessibility Services at UNM, please notify the instructor as soon as possible.

Important Dates:

Last day to drop w/o grade	January 30th, 2015
Spring break	March 8th- 15th, 2015
Last day to withdraw w/o Dean approval	April 10th, 2015
Last day to withdraw with Dean approval	May 1st , 2015

Disclaimer:
The instructor reserves the right to make changes to any part of the syllabus. Should such instances arise; students will be notified in advance.

Tentative Course Schedule:

I.   General Equilibrium Theory (Weeks 1-3)
   a. Background
   b. Partial equilibrium versus general equilibrium
   c. Pareto optimality and Competitive (Walrasian) equilibrium
   d. All the basics in a Robinson Crusoe economy
   e. Pure Exchange economy
   f. Existence of a Competitive Equilibrium
   g. Explicit function GE model

II.   Welfare Theory (Weeks 3-5)
   a. Basic analytics
   b. Public goods
   c. Externalities
   d. Government intervention

III. Mid-term 1 (Week 6- Monday, February 16th)
   a. Covering GE and Welfare Theory

IV.   Uncertainty (Weeks 7 and 8)
   a. Uncertainty and Expected Utility Theory
   b. Expected Utility with exogenous risk
   c. Expected Utility with endogenous risk

V.   Spring break (Week 9)

VI.   Game Theory (Weeks 10-16)
   a. Basic elements of non-cooperative games
   b. Static games of complete information
   c. Dynamic games of complete information
   d. Repeated games
   e. Simultaneous move games with mixed strategies
   f. Asymmetric info
      i. Moral hazard
      ii. Adverse Selection
      iii. Signaling (with time permitting)

VII. Final Exam (Monday, May 4th 5pm-8pm)
   a. Covering Uncertainty and Game Theory

Reading List:
** I will be posting additional relevant and interesting articles on the course website throughout the semester. **

I.   **General Equilibrium Theory**
    a. Starr relevant chapters
    b. Varian relevant chapters
    c. Arrow, K. and G. Debreu (1954), "Existence of equilibrium for a competitive economy," *Econometrica*, **22**: 265-290.
    d. Arrow, A. (1974), "General economic equilibrium: purpose, analytical techniques, collective choice," *American Economic Review*, **LXIV**(3): 253-272.

II.   **Welfare Theory**
    a. Starr relevant chapters
    b. Varian relevant chapters
    c. Bator, F. (1957), "The simple analytics of welfare maximization," *American Economic Review,* **47**: 22-59.
    d. Bator, F. (1958), "The anatomy of market failure," *Quarterly Journal of Economics,* **72**: 351-379.
    e. Coase, R. (1960), "The problem of social cost," *Journal of Law and Economics*, **3**:1-44.
    f. Samuelson, P. (1954), "The pure theory of public expenditure," *The Review of Economics and Statistics,* **36**: 387-389.

III.   **Uncertainty**
    a. Varian relevant chapters

IV.   **Game Theory**
    a. Rasmusen relevant chapters
    b. Dixit relevant chapters
    c. Varian relevant chapters