

Microeconomics 7006

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This second course in the graduate microeconomics sequence leans heavily on the first. The competitive equilibrium provides a benchmark, and welfare economics provides a normative methodology. We extend the discussion of an idealized economy of utility maximizing consumers and profit maximizing producers to consider cases of market failure.

Situations where the market fails to achieve Pareto efficiency provide a rationale for government intervention. Market power is a classic failure. The competitive equilibrium differs from that of monopoly or oligopoly. (The latter case motivates a digression into game theory.) Other failures are associated with public goods, environmental damages, and social insurance. We also think of income inequality as a market failure. In all cases we use the competitive benchmark to measure the costs, and to design appropriate public policy.

Finally, we turn to social choice theory for a discussion of democracy. The median voter model provides a benchmark for the analysis of the political equilibrium, analogous to economic equilibrium. We discuss the conditions under which a majority will support intervention to correct for the public goods failure discussed above. We also consider alternative voting rules.

The required textbook is Hal R. Varian, **Microeconomic Analysis**, third edition.

The grading scheme is:

Homework assignments	35%,
Final examination	45%

Late assignments lose points and the exams must be taken at the scheduled times. Incompletes are not generally given for nonmedical reasons. The University of Utah seeks to provide equal access to its programs, services and activities for people with disabilities. If you will need accommodations in the class, reasonable prior notice needs to be given to the Center for Disability Services (CDS), 162 Olpin Union Building, 581-5020 (V/TDD). CDS will work with you and the instructor to make arrangements for accommodations. All information in this course can be made available in alternative format with prior notification to the Center for Disability Services.

Topic Outline and Reading List

1. Welfare economics and market failures
 Varian, **Analysis**, chapters 17
2. Monopoly
 Varian, **Analysis**, chapters 14
 (optional) Oi, Walter, "A Disneyland Dilemma: Two-Part Tariffs for a Mickey Mouse Monopoly," **Quarterly Journal of Economics** **85**, Feb. 1971: 77-96
3. Cost-benefit analysis
 Ezzell, Carol, "The Himba and the Dam," **Scientific American**, June 2001: 80-89.
 Varian, chapters 10 and 22
 (optional) Freeman, A. Merrick, **The Benefits of Environmental Improvements: Theory and Practice**, Johns Hopkins: Baltimore 1979: Ch. 3 and 7.
 (optional) Broome, John, "Trying to Value a Life," **Journal of Public Economics** **9**, 1978: 91-100
4. Game theory, oligopoly and fairness
 Henrich, Joseph, et al, "In Search of Homo Economicus: Behavioral Experiments in 15 Small-Scale Societies," **American Economic Review** **91**, May 2001: 73-78
 Nowak, Martin, et al. "The Arithmetics of Mutual Help," **Scientific American**, June 1995: 10-15.
 Sigmund, Karl, et al., "The Economics of Fair Play," **Scientific American**, January 2002: 83-87
 Varian, **Analysis**, chapters 15 and 16
 (optional) Smith, Vernon, "Constructivist and Ecological Rationality in Economics," **American Economic Review** **93** (2003): 465-508.
5. Public goods
 Varian, chapters 10 and 22
 Samuelson, Paul, "Diagrammatic Exposition of Theory of Public Expenditure," **Review of Economics and Statistics** **37**, 1955: 350-356
 Sandler, Todd, **Collective Action**, 1992, chapter 2
 Varian, chapter 23
 (optional) Milinski, Manfred, et al., "Reputation helps solve the 'tragedy of the commons'," **Nature** **415**, 2002: 425-427.
 (optional) Herrmann, Benedikt, et al., "Antisocial Punishment Across Societies," **Science** **319** 2008: 1362-1366.
6. Uncertainty and information
 Persson, Torsten and Tabellini, Guido, **Political Economics**, 2000, chapter 6
 Varian, chapters 11 and 25
7. Social choice
 Bergstrom, Ted S., "When Does Majority Rule Supply Public Goods Efficiently," **Scandinavian Journal of Economics** **81**, 1979: 216-226
 Dasgupta, Partha and Maskin, Eric, "The Fairest Vote of All," **Scientific American**, March 2004: 92-97
 Kiefer, David **Macroeconomic Policy and Public Choice**, 1999, chapter 3
8. Conclusion and review