AEB 7108 - Microeconomic Theory II
Spring 2017

Instructor: Zhifeng Gao
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Tel: 352-294-7672
Email: zfgao@ufl.edu

Location and Class Hours:
Tuesday: 3:00 - 3:50 pm  MCCB 3124
4:05 - 4:55 pm  MCCB 3124
Thursday: 4:05 - 4:55 pm  MCCB 3124

Office Hours: Tuesday and Thursday, 2:00-3:00 pm, or by appointment

Course Description:
This is the second course in a sequence of graduate microeconomic theory. This course will focus on the advanced topics in microeconomic theory in the light of contemporary thought. Attention will be given to general equilibrium theory and applications, welfare economics and economics of choice under uncertainty.

Objective:
By taking this class students should be able to
1. Understand the basic concepts in general equilibrium analysis, welfare economic and economics of choice under uncertainty.
2. Apply the theory, and set up models for economic problems to conduct comparative static analysis.
3. Interpret the results from various economic models.

Prerequisites:
Knowledge of graduate microeconomics theory I (ECO 7115) is required. Abilities of using techniques of mathematical optimization and the method of comparative statics are required.

Homework and Grading:
Number of homework will be assigned across the whole semester. All assignments are due at the beginning of class on the due date. There will be two exams: one midterm and one final.
The weight for homework and exams are:

<table>
<thead>
<tr>
<th>Component</th>
<th>Weight</th>
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</thead>
<tbody>
<tr>
<td>Homework</td>
<td>20%</td>
</tr>
<tr>
<td>Midterm Exam</td>
<td>30%</td>
</tr>
<tr>
<td>Presentation</td>
<td>10%</td>
</tr>
<tr>
<td>Final Exam</td>
<td>40% (not comprehensive)</td>
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</table>

No extra credit works are available.

The grade is based on the weighted average of homework and exams.
<table>
<thead>
<tr>
<th>Course Grade</th>
<th>Letter Grade</th>
<th>Grade Point</th>
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<tbody>
<tr>
<td>90-100</td>
<td>A</td>
<td>4</td>
</tr>
<tr>
<td>87-89</td>
<td>A-</td>
<td>3.67</td>
</tr>
<tr>
<td>84-86</td>
<td>B+</td>
<td>3.33</td>
</tr>
<tr>
<td>81-83</td>
<td>B</td>
<td>3</td>
</tr>
<tr>
<td>78-80</td>
<td>B-</td>
<td>2.67</td>
</tr>
<tr>
<td>75-77</td>
<td>C+</td>
<td>2.33</td>
</tr>
<tr>
<td>72-74</td>
<td>C</td>
<td>2</td>
</tr>
<tr>
<td>69-71</td>
<td>C-</td>
<td>1.67</td>
</tr>
</tbody>
</table>

The cutoff point for grade will not increase and may fall after a curve is applied. You are strongly encouraged to form study groups to discuss homework and lecture materials.

**Textbooks (not required):**
Mas-Colell, A, M. D. Whinston and J. R. Green, Microeconomic Theory, Oxford University Press, 1995

**Attendance Policy:** Class attendance is expected. Student should inform instructor of expected absences. Excessive unexcused absences will result in negative consequences.

**Policy On In-Class Cell Phone Use And Text Messaging:** Cell phones should be turned off or put on vibrate mode and should not be answered during class period. Non-emergency, in-class text messaging is not acceptable.

**Academic Honesty, Software Use, UF Counseling Services, Services for Students with Disabilities**

**Academic Honesty**

In 1995 the UF student body enacted an [honor code](#) and voluntarily committed itself to the highest standards of honesty and integrity. When students enroll at the university, they commit themselves to the standard drafted and enacted by students.

In adopting this honor code, the students of the University of Florida recognize that academic honesty and integrity are fundamental values of the university community. Students who enroll at the university commit to holding themselves and their peers to the high standard of honor required by the honor code. Any individual who becomes aware of a violation of the honor code is bound by honor to take corrective action. The quality of a University of Florida education is dependent upon community acceptance and enforcement of the honor code.

**The Honor Pledge:** We, the members of the University of Florida community, pledge to hold ourselves and our peers to the highest standards of honesty and integrity.

On all work submitted for credit by students at the university, the following pledge is either required or implied: **"On my honor, I have neither given nor received unauthorized aid in doing this assignment."**
The university requires all members of its community to be honest in all endeavors. A fundamental principle is that the whole process of learning and the pursuit of knowledge is diminished by cheating, plagiarism and other acts of academic dishonesty. In addition, every dishonest act in the academic environment affects other students adversely, from the skewing of the grading curve to giving unfair advantage for honors or for professional or graduate school admission. Therefore, the university will take severe action against dishonest students. Similarly, measures will be taken against faculty, staff and administrators who practice dishonest or demeaning behavior.

**Student Responsibility.** Students should report any condition that facilitates dishonesty to the instructor, department chair, college dean or Student Honor Court.

(Source: 2009-2010 Undergraduate Catalog)

It is assumed all work will be completed independently unless the assignment is defined as a group project, in writing by the instructor. This policy will be vigorously upheld at all times in this course.

**Software Use:** All faculty, staff, and students of the University are required and expected to obey the laws and legal agreements governing software use. Failure to do so can lead to monetary damages and/or criminal penalties for the individual violator. Because such violations are against University policies and rules, disciplinary action will be taken as appropriate.

**UF Counseling Services:** Resources are available on campus for students having personal problems or lacking clear career and academic goals which interfere with their academic performance. These resources include:
1) University Counseling Center, 301 Peabody Hall, 392-1575, personal and career counseling, [www.counsel.ufl.edu](http://www.counsel.ufl.edu)
2) Student Mental Health Service, 245 Student Health Center, 392-1171, personal counseling, [www.shcc.ufl.edu/smhs/](http://www.shcc.ufl.edu/smhs/)
3) Sexual Assault Recovery Services (SARS), Student Health Care Center, 392-1161, sexual assault counseling;
4) Career Resource Center, CR-100 Reitz Union, 392-1601, career development assistance and counseling, [www.crc.ufl.edu](http://www.crc.ufl.edu)

**Students with Disabilities:** Students requesting classroom accommodation must first register with the Dean of Students Office (Students with Disabilities Office, Peabody 202 at 392-1261). The Dean of Students Office will provide documentation to the student who must then provide this documentation to the course instructor when requesting accommodation. Further information is available from the Disability Resource Center at [http://www.dso.ufl.edu/drc/](http://www.dso.ufl.edu/drc/).

**Tentative Course Outline**
You are expected to read those chapters/papers with asterisks. You are also responsible for material in handouts that will be distributed in class. Some supplemental papers and provided for each topic. Additional reference can be found at the end of each chapter in Silberberg and Suen. Students may read unassigned chapters/papers at their discretion.

(1) General Equilibrium and Welfare Economics

**General Equilibrium**
- General Equilibrium Methodology
- Linear and Non-linear Models
- Fixed-Coefficient Technology
- The Linear Activity-Analysis Model
Duality Analysis in General Equilibrium
The Edgeworth-Boxley Box Diagram
Contract Curve and Production Possibility Frontier
The Stolpher-Samuelson Theorems
The Rybczynski Theorems

Pure Exchange Model of General Equilibrium
The Core of an Exchange Economy
Walrasian Competitive Adjustment Mechanism
Existence and Stability of Walrasian Equilibria

Readings:


Welfare Economics
Pareto Optimality in Production
Pareto Optimality in Consumption
Overall Pareto Optimality
The Efficiency of Perfect Competition
The Efficiency of Imperfect Competition
External Economics and Diseconomies in Production and Consumption
Taxes and Subsidies - Solutions to Pareto Suboptimality
Optimal Pricing (or Taxation) to Maximize Social Welfare
Public Goods

Readings:


(2) Economics of Choice under Uncertainty

The Expected-Utility and Risk Aversion
The Expected-Utility Hypothesis and Theorems
Attitudes toward Risk: Risk Aversion, Risk Neutrality and Risk Preference
The Measurement of Risk Aversion

Reading:

Risk Bearing, Demand for Insurance, and Moral Hazard

Risk Shedding and Risk Pooling
Risk-Bearing, Demand for Protection and Insurance
Insurance and Moral Hazard

Readings:


Theories of Production Decisions under Uncertainty

Comparative Statics of the Risk-Bearing Optimum
Theory of the Competitive Firm under Uncertainty
Production Uncertainty

Readings:


**Important Dates**

<table>
<thead>
<tr>
<th>Event</th>
<th>Dates</th>
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<tbody>
<tr>
<td>Classes Begin</td>
<td>January 4th</td>
</tr>
<tr>
<td>Classes End</td>
<td>April 19</td>
</tr>
<tr>
<td>Drop/Add (11:59 pm of last day)</td>
<td>January 4-6 and January 9-10</td>
</tr>
<tr>
<td>Withdrawal with no Fee Liability (11:59 pm of last day)</td>
<td>January 10</td>
</tr>
<tr>
<td>Reading Day</td>
<td>April 20-21</td>
</tr>
<tr>
<td>Final Grades available</td>
<td>May 3</td>
</tr>
<tr>
<td>Holidays - no classes</td>
<td>January 16: Martin Luther King Jr. Day</td>
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<td>March 4- March 11: Spring Break</td>
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**Tentative dates**

Exam1                                      February 28
Exam2                                      In class, TBD.
Project Presentation (in class)            TBD