

AEB 7108 - Microeconomic Theory II
Spring 2019

Instructor: Zhifeng Gao
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Location and Class Hours:

Tuesday: 3:00 - 3:50 pm MCCB G108
 4:05 - 4:55 pm MAEB 0229
Thursday: 4:05 - 4:55 pm MAEB 0229

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:

Homework	20%
Midterm Exam	30%
Presentation	10%
Final Exam	40% (not comprehensive)

No extra credit works are available.

The grade is based on the weighted average of homework and exams.

Letter Grade Grade Point

Course Grade

90-100	A	4
87-89	A-	3.67
84-86	B+	3.33
81-83	B	3
78-80	B-	2.67
75-77	C+	2.33
72-74	C	2
69-71	C-	1.67

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):

Silberberg, E and W. Suen, *The Structure of Economics: A Mathematical Analysis*, 3rd Edition, McGraw-Hill, 2001

Mas-Colell, A, M. D. Whinston and J. R. Green, *Microeconomic Theory*, Oxford University Press, 1995

Carlton, E. W. and Perloff J. M, *Modern Industrial Organization* 4th edition. Addison Wesley, 2004

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 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, Student Honor Council or Student Conduct and Conflict Resolution in the Dean of Students Office.

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 of Florida 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 also against University policies and rules, disciplinary action will be taken as appropriate (<https://it.ufl.edu/policies/intellectual-property/copyright/>).

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) Counseling and Wellness Center, 3190 Radio Road, Gainesville, FL 32611, 392-1575, <https://counseling.ufl.edu>
- 2) Student Health Care Center, Main Campus: 280 Fletcher Drive/ SHCC @ Shands: Health Science Center, Dental Towers, 2nd Floor, Room D2-49, 392-1161, <https://shcc.ufl.edu>
- 3) Sexual Assault Recovery Services (SARS), Student Health Care Center, 392-1161, <https://shcc.ufl.edu>
- 4) Career Resource Center, UF Division of Student Affairs, J. Wayne Reitz Union, Suite 1300, 392-1601, www.crc.ufl.edu

Students with Disabilities: Students with disabilities requesting accommodations should first register with the Disability Resource Center (352.392.8565) by providing appropriate documentation. Once registered, students will receive an accommodation letter which must be presented to the instructor when requesting accommodations. Students with disabilities should follow this procedure as early as possible in the semester.

Further information is available from the Disability Resource Center at <https://disability.ufl.edu/>.

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 Stolper-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:

* Silberberg, E and W. Suen, “General Equilibrium I: Linear Models”, Chapter 17.

* Silberberg, E and W. Suen, “General Equilibrium II: Non-Linear Models”, Chapter 18.

Stolper, W.R. and P. A. Samuelson, “Protection and Real Wages”, Review of Economic Studies, 9 (1941):58-73.

Robertson, Raymond (2004) “Relative Prices and Wage Inequality: Evidence from Mexico” Journal of International Economics vol 64, n2 (December), pp. 387-409.

*Mayer, W. “Short-Run and Long-Run Equilibrium for a Small Open Economy”, Journal of Political Economy, 82 (1974):955-967.

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:

* Silberberg, E and W. Suen, “Welfare Economics” Chapter 19.

* Varian, H.R., “A Solution to the Problem of Externalities When Agents are Well-Informed”, American Economic Review, 84 (December 1994):1278-1293.

(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:

* Silberberg, E and W. Suen, “Behavior under Uncertainty”, Chapter 13.

Friedman, M. and L. Savage, "The Utility Analysis of Choices Involving Risk", Journal of Political Economy, 56 (1948):279-304.

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:

*Ehrlich, I and G. S. Becker, "Market Insurance, Self-Insurance, and Self-Protection", Journal of Political Economy, 82 (1972):623-648.

*Chang, Y.M. and I. Ehrlich, "Insurance, Protection from Risk and Risk-Bearing", Canadian Journal of Economics (August 1985): 574-586.

Pauly, M.V., "Overinsurance and the Public Provision of Insurance: The Role of Moral Hazard and Adverse Selection", Quarterly Journal of Economics, 88 (1974):44-54.

Löffler, Andreas. "Variance Aversion Implies $\mu - \sigma^2 - Criterion.$ " Journal of Economic Theory. 69 (1996):532-39.

Theories of Production Decisions under Uncertainty

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

Readings:

*Sandmo, A., "On the Theory of the Competitive Firm under Price Uncertainty", American Economic Review, (March 1971):65-71.

Batra, R. and A. Ullah, "Competitive Firm and the Theory of Input Demand under Uncertainty", Journal of Political Economy, (June 1974):537-548.

*Schmitz, A., H. Shalit and S. J. Turnovsky, "Producer Welfare and the Preference for Price Stability", American Journal of Agricultural Economics, (1981):158-160.

Important Dates

Classes Begin	January 7th
Classes End	April 24
Drop/Add (11:59 pm of last day)	January 7-11
Withdrawal with no Fee Liability (11:59 pm of last day)	January 11
Reading Day	April 25-26
Final Grades available	May 8
Holidays - no classes	January 21:Martin Luther King Jr. Day March 2- March 9: Spring Break

Tentative dates

Exam1	February 26
Exam2	In Class, TBD
Project Presentation (in class)	In Class, TBD

