

School of Economics and Finance

Econ 404

ADVANCED MICROECONOMIC THEORY A

COURSE OUTLINE 2010

A study of advanced microeconomic theories including: consumer theory, producer theory, general equilibrium, and decisions under uncertainty

Teaching Staff

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Class Times and Room Numbers

Trimester 1 of 2010: Monday March 1 to Friday June 4.

Thursdays 12:40-2:30 in RWW 415.

Exam to occur between June 11th and 30th (inclusive.)

Students enrolled in 404 are obliged to attend an examination scheduled at any time during the examination period.

Readings

There is no required reading.

A good reference is:

Mas-Colell, Whinston, and Green, *Microeconomic Theory*, Oxford University Press, Oxford (1995).

A list of supplemental readings for the second half of the course is provided on Jack's web page.

Preparation

QUAN 201 (or QUAN 203) and ECON 314 are the formal prerequisites for this course. Although we will make extensive use of mathematical techniques, prior knowledge of advanced mathematics is not essential to succeed in this course. However, it is essential that you be comfortable with mathematical arguments.

Assessment Requirements

The final grade in this course will be calculated using the results of two assignments and a final examination. The assignments will be broken into pieces.

Assignment 1: 25%

Part 1: 5 PM Friday 26 March (week 4.)

Part 2: 5 PM Friday 30 April (week 7.)

Assignment 2: 25%

Part 1: Due at start of lecture 9, Thursday, 13 May.

Part 2: Due at start of lecture 11, Thursday, 27 May.

Part 3: 3 PM Thursday 1 June 10 (week 13.)

Final exam: Three hours, date to be advised. 50%

Late assignments will not be marked.

Lecture Outline

Part I (VP)

1. **Consumer Choice:** Preference relations and choice rules; utility maximization and expenditure minimization; Walrasian and Hicksian demand; the indirect utility function and the expenditure function; the duality of expenditure minimization and utility maximization; integrability.
2. **Production:** production sets and technology; profit maximization and cost minimization; properties of the profit and cost functions.
3. **General Equilibrium:** existence of equilibrium, welfare analysis.

Part II (JR)

4. **Preferences with Uncertainty:** lotteries, decision flow diagrams, axioms, basic reference lottery tickets, von Neuman-Morganstern utility functions.
5. **Preferences with Three Outcomes:** Indifference curves, risk and money love, linearity in probabilities.
6. **Risk Aversion:** Definition, the certainty money equivalent, the probability premium, measures of risk aversion.
7. **The Favourable Bet Theorem:** The Ulam coward, general statement.
8. **Monotonicity and Tradeoffs:** Mean-variance analysis, stochastic dominance, the demand for insurance.
9. **Topics:** Search, the value of information, subjective expected utility.

Course Learning Objectives

By the end of this course, students should be able to

- 1) Formulate and solve microeconomic models
- 2) Apply the Fundamental Theorems of Welfare Economics
- 3) Identify when stochastic dominance is relevant, and then use it to make decisions.
- 4) Apply the Favorable Bet Theorem

Expected Workload

The expected workload is 150 hours. Actual times will depend upon the student.

Course Delivery

The lecturer will lecture.

Withdrawal from Courses:

Information available via

Withdrawal dates: Late withdrawals with Associate Dean (Students) permission
(See Section 8: Withdrawals - from the Personal Courses of Study Statute)

<http://policy.vuw.ac.nz/Amphora!~~policy.vuw.ac.nz~POLICY~000000001743.pdf>

Withdrawal dates: refunds:

<http://www.victoria.ac.nz/home/admisenrol/payments/withdrawalsrefunds.aspx>

CLASS REPRESENTATIVE

A statement that a class representative will be elected in the first class, and that person's name and contact details will be available to VUWSA, the Course Coordinator and the class. The class representative provides a communication channel to liaise with the Course Coordinator on behalf of students.

For the following important information follow the links provided:

Academic Integrity and Plagiarism

<http://www.victoria.ac.nz/home/study/plagiarism.aspx>

General University Policies and Statutes

<http://www.victoria.ac.nz/home/about/policy>

AVC (Academic) Website: information including: Conduct, Academic Grievances, Students with Impairments, Student Support

http://www.victoria.ac.nz/home/about_victoria/avcacademic/Publications.aspx

Faculty of Commerce and Administration Offices

<http://www.victoria.ac.nz/fca/studenthelp/>

Manaaki Pihipihinga Programme

http://www.victoria.ac.nz/st_services/mentoring/