

School of Economics and Finance

ECON405 Advanced Microeconomics B

Trimester Two 2012

COURSE OUTLINE

Names and Contact Details

Lecturer and Coordinator

Jack Robles
Room RH 317
Office Hours: By appointment
Email: jack.robles@vuw.ac.nz
Mail Box: Mezzanine Floor, RH, Box # 72

Lecturer

Paul Calcott
Room RH 324
Office Hours: By appointment
Email: paul.calcott@vuw.ac.nz
Mail Box: Mezzanine Floor, RH, Box # 83

Class Times and Room Numbers

Lecture Times and Location

Monday: 9:30-11:20 AM RWW 125

Assessment Requirements

The assessment for the course consists of two assignments, and a final examination.

Assignment 1: 25%

Part 1: Week 3, 5PM Friday August 3.

Part 2: Week 5, 5PM Friday August 17.

Part 3: Week 7, 5PM Tuesday September 11.

Assignment 2: 25%

Due date TBA.

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

Assignments to be placed in the relevant Mezzanine Floor mail box.

Your assessed work may also be used for quality assurance purposes, such as to assess the level of achievement of learning objectives as required for accreditation and audit purposes. The findings may be used to inform changes aimed at improving the quality of FCA programmes. All material used for such processes will be treated as confidential, and the outcome will not affect your grade for the course.

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 first half of the course is provided on Jack's web page.

Course Content

Part I (JR)

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

Part II (PC)

7. **Comparative Statics** with the monotonicity theorem and the implicit function theorem.
8. **Incomplete Contracts** and underinvestment.
9. **Remedies to underinvestment:** Vertical Integration and damages for breach of contract
10. **Renegotiation**

Course Learning Objectives

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

- 1) comprehend and articulate the issue of damages for breach of contracted
- 2) be able to carry out comparative statics analysis
- 3) understand incentives for specific investments
- 4) comprehend the relationship between asset ownership and underinvestment
- 5) analyse models of damages when renegotiation is possible
- 6) characterise optimal linear contracts in the presence of moral hazard
- 7) understand the difference between precision and distortion of performance measures
- 8) explain the principles of strategic delegation in oligopolistic games
- 9) analyse simple models of reputation building with asymmetric information
- 10) distinguish between formal and real authority in organisations

Mandatory Course Requirements There are no mandatory course requirements.

Penalties Late assignments will not be marked.

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.

Communication of Additional Information

Additional information will be announced either in lecture or on blackboard.

Trimester Dates

Teaching Period: Monday 16 July – Friday 19 October

Study Period: Monday 22 October – Thursday 25 October (Monday 22 October is a public holiday, Labour Day)

Examination Period: Friday 26 October – Saturday 17 November (inclusive)

Withdrawal from Course

Your fees will be refunded if you withdraw from this course on or before Friday 27 July 2012. The standard last date for withdrawal from this course is Friday 28 September. After this date, students forced to withdraw by circumstances beyond their control must apply for permission on an 'Application for Associate Dean's Permission to Withdraw Late' including supporting documentation

The application form is available from either of the Faculty's Student Customer Service Desks.

Course Delivery

is via lectures and tutorials.

Expected Workload

This is a 15 point course which implies a workload = 150 hours. Hours expected per week = 11.5 (over 13 weeks), or 12.5 (over 12 weeks). This is a guide only and individual students should not feel constrained by it.

Examinations

Students who enrol in courses with examinations are obliged to attend an examination at the University at any time during the formal examination period. The final examination for this course will be scheduled at some time during the period from Friday 26 October – Saturday 17 November (inclusive).

Class Representative

A class representative will be elected in the first class, and that person's name and contact details made 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

[Find key dates, explanations of grades and other useful information at www.victoria.ac.nz/home/study](http://www.victoria.ac.nz/home/study)

[Find out about academic progress and restricted enrolment at http://www.victoria.ac.nz/home/study/academic-progress.aspx](http://www.victoria.ac.nz/home/study/academic-progress.aspx)

[The University's statutes and policies are available at www.victoria.ac.nz/home/about/policy](http://www.victoria.ac.nz/home/about/policy), except qualification statutes, which are available via the Calendar webpage at <http://www.victoria.ac.nz/home/study/calendar.aspx> (See Section C).

[Further information about the University's academic processes can be found on the website of the Assistant Vice-Chancellor \(Academic\) at www.victoria.ac.nz/home/about_victoria/avcacademic/default.aspx](http://www.victoria.ac.nz/home/about_victoria/avcacademic/default.aspx)

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/