

School of Economics and Finance

ECON 404 ADVANCED MICROECONOMIC THEORY

Trimester One 2014

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, **Box # 88**

Lecturer

Vladimir Petkov

Room RH 311

Office Hours: By appointment

Email: vladimir.petkov@vuw.ac.nz

Mail Box: Mezzanine Floor, **Box # 70**

Class Times and Room Numbers

Lecture Times and Location

Thursday: 2:40pm - 4.30pm in RWW 128

Assessment Requirements

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

Assignment 1: 20%

Part 1: Week 4, 5PM Friday 5 April

Part 2: Week 7, 5PM Friday 3 May

Assignment 2: 20%

Part 1: Week 9, 5PM Wednesday 14 May.

Part 2: Week 11, 5PM Wednesday 28 May.

Part 3: Week 12, 5PM Friday 6 June.

Final exam: Three hours, date to be advised. 60%

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

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.

Penalties Late assignments will not be marked.

Course Content

Part I (VP)

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

Part II (JR)

4. **Preferences with Uncertainty:** lotteries, axioms, basic reference lottery tickets, von Neumann-Morgenstern 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 Risk:** Mean-variance analysis, stochastic dominance, the demand for insurance.
9. **Signalling:** Inference in signalling games.
10. **Search:** Simultaneous search, optimal sequential search.

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

Regarding Assessed Items

A student completing all three assessment requirements should have obtained all 4 learning objectives.

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 VBS programmes. All material used for such processes will be treated as confidential, and the outcome will not affect your grade for the course.

Mandatory Course Requirements There are no mandatory course requirements. If you cannot sit the exam refer to www.victoria.ac.nz/home/study/exams-and-assessments/aegrotat

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.

Trimester Dates

Teaching Period: Monday 3 March – Friday 6 June

Study Period: Monday 9 June – Thursday 12 June

Examination Period: Friday 13 June – Wednesday 2 July (inclusive)

Communication of Additional Information

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

Withdrawal from Course

Your fees will be refunded if you withdraw from this course on or before 14 March 2014.

The standard last date for withdrawal from this course is 16 May. 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 13 June to Wednesday 2 July (inclusive.)

Class Representative

A class representative will be elected for the entire class of Honours, 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.

Assessment

From Trimester 1, 2014, a revised Assessment Handbook will apply to all VUW courses: see <http://www.victoria.ac.nz/documents/policy/staff-policy/assessment-handbook.pdf>.

In particular, there will be a new grade scheme, in which the A+ range will be 90-100% and 50-54% will be a C-.

Prescription

A study of advanced microeconomic theories including basic choice theory, consumer theory, decision-making under uncertainty, basic welfare theory, uncertainty, producer theory, and general equilibrium with production and firms.

Link to general information

For general information about course related matters, go to

<http://www.victoria.as.nz/vbs/studenthelp/general-course-information>