

School of Economics and Finance

## **ECON 404 ADVANCED MICROECONOMIC THEORY**

Trimester Two 2015

### **COURSE OUTLINE**

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#### **Names and Contact Details**

##### **Lecturer and Coordinator**

Jack Robles

Room RH 317

Office Hours: By appointment

Email: [jack.robles@vuw.ac.nz](mailto: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](mailto:vladimir.petkov@vuw.ac.nz)

Mail Box: None

#### **Class Times and Room Numbers**

##### **Lecture Times and Location**

Monday: 9:30 to 11:20 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, Start of lecture Monday 3 August

Part 2: Week 7, Start of lecture Monday 17 August

Assignment 2: 20%

Part 1: Week 9, 5PM Wednesday 23 September.

Part 2: Week 11, 5PM Wednesday 7 October.

Part 3: Week 12, 5PM Friday 16 October.

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

Jack's assignment to be placed in the relevant Mezzanine Floor mail box.

Vlado's assignment to be handed to Vlado in class.

#### **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 complete an assignment or sit the exam refer to [www.victoria.ac.nz/home/study/exams-and-assessments/aegrotat](http://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 13 July – Friday 16 October

Study Period: Monday 19 October – Thursday 22 October

Examination Period: Friday 23 October – Saturday 14 November (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 24 July. The standard last date for withdrawal from this course is 25 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 23 October – Saturday 14 November (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**

The Assessment Handbook will apply to all VUW courses: see

<http://www.victoria.ac.nz/documents/policy/staff-policy/assessment-handbook.pdf>.

### **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>