

School of Economics and Finance

## **ECON405 Advanced Microeconomics B**

Trimester Two 2016

### **COURSE OUTLINE**

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

##### Lecturer and Coordinator

Jack Robles  
Room RWW 117  
Office Hours: By appointment  
Email: [jack.robles@vuw.ac.nz](mailto:jack.robles@vuw.ac.nz)  
Mail Box: RWW Level 1, Box # 88

##### Lecturer

Paul Calcott  
Room RWW 113  
Office Hours: By appointment  
Email: [paul.calcott@vuw.ac.nz](mailto:paul.calcott@vuw.ac.nz)  
Mail Box: RWW Level 1, Box # 74

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

##### Lecture Times and Location

Thursday: 1:40-13:30 AM RWW 128

#### **Assessment Requirements**

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

Assignment 1: 25%

Due August 18.

Assignment 2: 25%

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

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

Part 3: Week 12, 5PM Tuesday October 14..

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

Assignments to be placed in the relevant mail box.

The Assessment Handbook applies to all VUW courses:

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

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.

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)

**Penalties** Late assignments will not be marked.

## 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.

## Course Content

Part I (PC)

1. **Comparative Statics** with the monotonicity theorem and the implicit function theorem.
2. **Incomplete Contracts** and underinvestment.
3. **Remedies to underinvestment:** Vertical Integration and damages for breach of contract
4. **Renegotiation**

Part II (JR)

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

## 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

**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 11<sup>th</sup> July – Friday 14<sup>th</sup> October

Study Period: Monday 17<sup>th</sup> October – Thursday 20<sup>th</sup> October

Examination Period: Friday 21<sup>st</sup> October – Saturday 12<sup>th</sup> November (inclusive)

### **Withdrawal from Course**

1. Your fees will be refunded if you withdraw from this course on or before Friday 22<sup>nd</sup> July 2016.
2. The standard last date for withdrawal from this course is Friday 23<sup>rd</sup> September 2016. 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 or [online](#).

**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 following period:

Friday 21<sup>st</sup> October – Saturday 12<sup>th</sup> November (inclusive)

### **Student feedback**

The Last time this course was offered it received a 2.0 on "Overall I would rate this course as." No changes have been made in response to this evaluation. Student feedback on University courses may be found at .  
[www.cad.vuw.ac.nz/feedback/feedback\\_display.php](http://www.cad.vuw.ac.nz/feedback/feedback_display.php)

### **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.

### **Link to general information**

For general information about course-related matters, go to  
<http://www.victoria.ac.nz/vbs/studenthelp/general-course-information>