

Advanced Microeconomics I

ECON 701

West Virginia University

Fall 2023

Reynolds Hall 5201

4:00- 5:40 T-TH

Instructor: [Professor Roger D. Congleton](#)

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Office Hours: 2:30 - 3:30 Wednesdays-Thursdays, and other afternoons by appointment

Class Website <http://rdc1.net/class/Adv%20Micro%20I/index.htm>

Optional Texts:

Nicholson, W. **Microeconomic Theory**, Twelfth Edition. (2016)

Knight, F. H. **Risk Uncertainty and Profit**. (1985/1921) Midway Reprint edition, University of Chicago Press.

Mas-Colell, A., Green, J. R., and Whinston, M. D.

(1995) **Microeconomic Theory**. Oxford: Oxford University Press

Congleton, R. D. (2022) **Solving Social Dilemmas: Ethics, Politics, and Prosperity**. Oxford University Press

Course Focus:

Advanced Microeconomics I is divided into three parts. The first part of the course focuses on the core models and results of economics. It reviews the theory of consumer behavior (demand), theory of firm output decisions (supply), the theory of firm production decisions and their connection to a firm's cost functions, and models of equilibrium prices.

The second part explores extensions of the neoclassical model to choice settings where time and uncertainty are important features. It models inter-temporal choices and choices in settings where outcomes or circumstances are probabilistic rather than certain. It also develops models of innovation and entrepreneurship. Innovation and entrepreneurship are both examples of decisionmaking under uncertainty and a source of uncertainty.

The third part explores implications of what might be regarded as market imperfections, but which are actually simply violations of some of the usual assumptions about the setting in which trade takes place.

Implications of theft, fraud, regulation, politics, and ethical dispositions are developed analytically. All these neglected factors can have significant effects on the manner in which markets operate and the extent of the networks of exchange, production, and innovation that typify contemporary markets. Part three concludes with an overview of welfare economics and its applications to markets, externalities, and system design.

The goal of the course is to provide graduate student with a thorough understanding of the core neoclassical models, their extensions, and foundational assumptions. It also attempts to give them an appreciation of their explanatory power by exploring subset of post-war extensions of the core models and analyzing linkages between economic, political, and social systems.. The course is lecture and web-text based.

Dates

Topic Readings

I. The Core Models of Neoclassical Economics

17-Aug-23 **1. Introduction to Course and Economic Models** N: 1, 2, 3 , MWG: 1, 2 Kn 3

Methodological Individualism and Microeconomics: Rational Choice as a modeling device. Scarcity and optimization. What does Rational choice mean? Choosing patterns of consumption.

17-Aug-23 **2. Consumer Demand** N: 11, 12; MWG: 5

. The Geometry and Mathematics of Decisions to Purchase Goods and Services, Cobb-Douglas Models, More Abstract Models of Consumer Choice

29-Aug-09 **3. Supply** N: 5, 6, 7, 13; MWG: 3, 5; Kn: 6

The Mathematics of Decisions to Produce Goods for Sale in the Short Run and Long Run by Price-Taking Firms, The Implications of Diminishing Returns. Monopolists and Price- Making Firms. .

5-Sept-23 **4. Production** N: 21, 22, 23; MWG: 3, 5; Kn: 4

.Decisions about how goods are Produced, and what they cost?. Input Prices, Technology, and Production Costs for Price Taking firms. Demands for Inputs. .

12-Sept-23 **5. Equilibrium Prices** N:13, K:7

.Market Clearing Prices in the Short Run. Marshalian and Ricardian Theories of Long Run Supply, Geometry and Calculus Models of Markets. (Appendix on General Equilibrium)

14-Sept-23

Review for Midterm Exam

Study Guide I / Selected Answers

21-Sept-23

MIDTERM EXAMINATION

II. Extensions of Neoclassical Price Theory

28-Sept-23 **6. Intertemporal Decisions**

Plans that take more than 1 "period" to execute require taking into account both changes that may occur through time and interest rates. Chapter 6 develops models of consumer choice where consumption takes place in long enough periods that interest rates and changes in income need to be taken into account. The chapter also introduces present and future value calculations in money terms.).

02-Oct-23

7. Economic Implications of Risk

N: 9, 10, 19; MWG: 13, 14

Risk Aversion and Choice under Uncertainty. Markets for Insurance. Other Risk shifting Strategies. Strategies for Moderating Risks: Monitoring, Quality Control, and the Routines of Management, Risk Moderation and the Extent of Markets

12-Oct-23

8. Uncertainty and Entrepreneurship

N:9, 10; MWG: 14 Kn: 9, 10

Uninsurable Risks and the Usefulness of Reserves. Entrepreneurship as decisionmaking under uncertainty. Knight, Schumpeter, and Kirzner on Entrepreneurship. Entrepreneurs as Formateurs, Investing in Innovation, Innovation as a source of economic profits, Innovation as a source of uncertainty.

III. Foundations of Neoclassical Price Theory

17-Oct-23

13. Law and Economics

N: 26; MWG: 11, 12

The Economics of Crime the Extent of Markets, Fraud and the extent of Markets, the Quality of Law Enforcement, Realizable Gains to Trade, and the Extent of Markets,

24-Oct-09

14. Politics and Economics

N: 26, 27; MWG: 21, 22

Electoral Competition and Electoral Determined Public Policy, Market Adjustments to Public Policies, Investments in Rent Seeking and the Extent of Markets.

21-Oct-23

15. Ethics, Norms, and the Efficiency of Markets N: 24; Kn: 5, 11; C: 6,8

Internalized norms and the Efficiency of Markets. Economizing on Ethical Agents. Culture and the Extent and Growth Rates of Markets. Extended Rational Choice Models.

7-Nov-23 16. **Welfare Economics**

N: 9, MWG: 10, 15, 16

Deciding what is best, Utilitarian Notions of Economic Efficiency, Cost Benefit Analysis, the Pareto Criteria, Contractarianism. The normative properties of exchange (w and w/o externalities).

16-Nov-23 17. Overview of the course

STUDY GUIDE II

Fall/Thanksgiving Break

28-Nov-28 Review for the End-term exam

30-Nov-23 End-term EXAM

5-Dec-23 Exams Returned and Reviewed, Paper Work Shop

Ideas for Papers

13-Dec-23 8-10 Page paper due on an applied micro topic

Grades:

Midterm Exam 35.00%

8-10 page Paper 25.00%

Final Exam 35.00%

Homework 5.00%

Marginal extra credit for class participation (up to 5% bonus)

No AI-Bots allowed for take home assignments or for the term paper.

All WVU policies for makeups, handicap accommodations, and grades apply.