

Instructor: Professor Roger D. Congleton

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Office Hours: 2:30-4:00 Tuesdays-Wednesday, and other times by appointment

Required Text:

Nicholson, W. *Microeconomic Theory*, Seventh Edition. (1998) New York: Harcourt Brace. ISBN 0030244749

Optional Texts:

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 ISBN: 0195073401

Course Focus:

Microeconomics II is divided into two parts with related and complementary goals. The first part of the course focuses on the logic of the neoclassical competitive model and explores how that model can be used to explain the origins of such markets and to analyze circumstances of intense market competition.

The second part explores implications of what might be called market imperfections: economies of scale, barriers to entry, transactions costs, innovation, regulation and so forth. The coverage is partly topical and varies by semester. Such topics as the economics of information, normative analysis, culture, political economy, and economic dynamics may be covered. The goal of the course is to provide the student with a thorough understanding of the core neoclassical models, and appreciation of its power by exploring in some depth a few recent extensions of the neoclassical model.

Tentative Course Outline

<u>Dates</u>	<u>Topic</u>	<u>Readings</u>
I. The Economics of Competitive Markets		
1/18	Introduction to Economic Models Methodological Individualism: Rational Choice as a modeling device. Scarcity and optimization. What does rational choice mean? Choosing patterns of consumption.	N: 1, 2, 3 MWG: 1, 2 Kn 3
1/25	Production Alone and on Teams Household production, specialization, entrepreneurship, monitoring problems, production by teams	N: 11, 12 MWG: 5
2/1	Micro Foundations of Supply and Demand	N: 5, 6, 7, 13 MWG: 3, 5 Kn: 6

What gets produced, how is it produced, and who produces it? Equilibrium Production, Neoclassical firms and Consumers.

2/8 Micro Foundation of Supply and Demand Continued N: 21, 22, 23; MWG: 3, 5 Kn: 4
More on the Mathematics of Supply and Demand of Inputs, Cost Functions and Consumer Choice. Slutsky and Euler equations.

2/15 Price Determination in the Long and Long Run N:13, K:7
Monopolistic and competitive markets, Short and long run supply decisions of a competitive firm. Monopolistic Competition.

2/22 Review for Midterm Exam study guide

3/1 MIDTERM EXAMINATION

3/8 SPRING BREAK

3/15 Exams Returned and Reviewed

3/15 Information, Market Adjustment, and Competitive Equilibrium N: 9 MWG: 10, 15, 16

3/22 Markets, Competition and Welfare Economics N: 14, 15, 17, 24 MWG: 11
Economic Efficiency, the Pareto Criteria, social welfare functions. The welfare properties of exchange (w and w/o externalities). Technological Externalities, Increasing Returns?, Efficiency of LR competitive equilibrium.

II. Implications of Market Imperfections

3/29 Competition in "non competitive" Markets N: 19, 20 MWG: 12
Duopolistic output and price competition. Price discrimination, product variation (variation of Lancaster's model), entry barriers and credible threats. Competition in quality, price, advertising. Conjectural Variations in Oligopoly Theory.

4/5 Information Problems and Imperfect Competition N: 20, MWG: 13, 14
How talented and informed are consumers? The effects of consumer ignorance, rules of thumb, rational expectations, and transactions costs. The market for lemons, snob effects. Effects of Uncertainty on Production decisions. Signaling games: advertising and other signals as cheap talk.

4/12 The Firm: Contract and Control under Imperfect Information N:9, 10; MWG: 14; Kn: 9, 10
Knight, Schumpeter, Kirzner, and Coase. Modern conceptions of the The principal agent problem: between owners and managers, between managers and employees. Incentive compatible contracts. Contracts as screening devices. Separating Equilibria.

4/19 4-6 page paper due on an applied micro topic

- 4/19 Culture, the Firm, and the Efficiency of Production N: 24, MWG: Kn: 5, 11
Can culture make markets work better? Is there an economic rationale for promoting a work ethic? Status seeking behavior: wasteful or not? Corporate versus national culture and the costs of monitoring. Temptation and self discipline.
- 4/26 Overview of the course and Review for the final study guide
- 5/3 FINAL EXAM**

Grades:

Midterm Exam	35%
4-6 page Paper	25%
Final Exam	40%
Marginal extra credit for class participation (up to 5% bonus)	