

Semester 2, 2023

ECON371: Microeconomic Theory

(18 points)

COURSE OUTLINE

Lecturers

Peter Gibbard

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Paul Hansen

(lecturer for second half and course co-ordinator)

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Welcome to ECON371!

ECON371 provides intensive training on the tools of modern microeconomic analysis. The paper covers choice under uncertainty, general equilibrium, game theory and public goods. Students are expected to deepen their economic thinking about real-world events by focusing on canonical (i.e., frequently applied) theoretical models of externalities, asymmetric information and market power (extending price theory to consider simple models of imperfect competition). ECON371 picks up where ECON271 Intermediate Microeconomic Theory left off (and uses the same textbook).

By the end of the course you should have substantially extended your understanding of the techniques of analysis and results from microeconomic theory appropriate for students wanting the option of pursuing postgraduate study in economics. You will also be able to:

- Make predictions based on equilibrium outcomes in the canon of microeconomic theory;
- Write about real-world economic scenarios in a sophisticated analytic voice based on economic models
- Analyse topical debates in public policy using well-known economic models that take into account externalities, asymmetric information and market power

ECON371 is *the* core *advanced* microeconomic *theory* paper in economics. The paper is designed to formalise and extend the concepts of microeconomics that you were introduced to in ECON271. You will have seen many of the topics before: consumer theory, producer theory, exchange, monopoly and externalities. Other topics may be less familiar. The tools of microeconomics are useful for a wide variety of problems – most of what you see in the newspapers or run into in daily life – and examples will be used to give you a sense of the range.

The analysis will be technical in nature, involving calculus and optimisation. While this formalisation is essential for a modern treatment of microeconomics, the lectures will also present graphical techniques, especially for the building of intuition. If you are uncomfortable about your background in algebra or calculus, please review your algebra and calculus skills and/or seek external help now. By the end of the course you should have enhanced your understanding of analytical techniques and increased your ability to reason logically.

Prerequisite

Students are expected to have successfully completed ECON271 Intermediate Microeconomic Theory.

Textbook

Continuing from ECON271, the textbook is Thomas J. Nechyba: *Microeconomics: An Intuitive Approach with Calculus*.

Lecture topics

The following is the planned course outline. More topics may be added and you must attend lectures to stay informed about any modifications to the course.

<i>Chapter from Nechyba ...</i>	<i>Week beginning ...</i>
Ch.16: General Equilibrium (Part 1)	10 July
Ch.16: General Equilibrium (Part 2)	17 July
Ch.17: Choice and Markets in the Presence of Risk	24 July
Ch.20: Prices and Distortions across Markets	31 July
Ch.22: Asymmetric Information in Competitive Markets	7 August
Ch.24: Strategic Thinking and Game Theory	14 August
Test 1, worth 40% of final mark	21 August
Mid-semester break	28 August
Ch.25: Oligopoly	4 September
Ch.26: Product Differentiation and Innovation in Markets	11 September
Ch.27: Public Goods	18 September
Ch.28: Governments and Politics	25 September
Ch.29: What is Good? Challenges from Psychology and Philosophy	2 October
Test 2, worth 40% of final mark	9 October

Lectures

The lectures will follow the textbook as indicated in the schedule of topics above. Attending lectures and working through problems presented in lectures and tutorials is very important. Doing the within-chapter exercises significantly improves students' performance on the assessments.

For lecture times and locations, check the timetable on your student *eVision* portal.

Tutorials

The tutorial programme complements the material covered in lectures and the textbook. It contains questions that you should do over the course of the semester. Tutorials take place weekly (on Wednesdays) and begin in week 2. Tutorial questions will be distributed periodically during the semester. You should attempt the questions prior to each tutorial.

Please do not come to tutorials simply to write down the answers. Instead, you should be prepared to answer (and ask) questions during the tutorial.

Understanding the relevant course material and attempting the tutorial questions prior to attending class is vital to your success in the class.

Aplia

During this course you will be required to access a website called *Aplia* to complete weekly assignments due most weeks. In the first week of class, we will explain how to register. Please register on the website within 24 hours after we pass out the course key.

Workload

This is an 18-point semester paper. Under the University's points conventions, an 18-point paper corresponds approximately to an average workload of 12 hours per week (including contact hours), or roughly 180 hours in total over a 15-week period (including the end-of-semester exam period).

How to succeed

Attend lectures and tutorials (*obviously!*). Experience shows that there is a strong correlation between good attendance and success in this paper (and between poor attendance and failure!).

Buy and thoroughly read the textbook (several times!). You do not need to read anything else. Do not skip the Introductions (to the Parts as well as the Chapters) and the Conclusions in each chapter. You need to know the material well and do not think your work is finished simply when you think you can follow what Nechyba is saying. You should read each chapter carefully a number of times and you should do this steadily over the semester. Do not leave the serious reading of the textbook until it is too late. Make sure you attempt the within-chapter exercises as you read.

After a few readings attempt the questions at the end of each chapter. Do as many problems as you can. We cannot emphasise enough how important this is. The questions we cover in the tutorials should be regarded as an absolute minimum.

Work steadily over the semester. Don't forget that later work in the paper builds on earlier work. You will not have much time to catch up if you fall behind. In any case, intensive work at the end is never a substitute for regular effort throughout the paper.

Do not get discouraged if you get stuck on a problem. This is to be expected. Problems will become easier if you stick to it. Consult the relevant part of the textbook or your lecture notes. You will see if you read the material properly how to solve most of the problems you meet. If you really are stuck ask for help! Your lecturer is more than happy to help you out. Do not hesitate to visit or email them questions.

Here is what Confucius said about 2500 years ago: "I hear and I forget. I see and I remember. I do and I understand."

The real test of how well you understand is to do problems on your own. Assessment is designed to see how much you understand, not to see how much you remember.

Problem solving

The assessment is based on problem solving. In many papers you have done, you are likely to have had a choice of questions, involving essays. A natural strategy to deal with this is to spot questions and to concentrate on only a few topics on the syllabus. This strategy is likely to be fatal (academically speaking!) in this paper. It is a key property of problem-solving assessments that if you do not complete the exercises properly then this fact will be clearly revealed on later assessments! Students cannot usually bluff their way to a satisfactory result.

The crucial test of your understanding is solving problems. Because you will only develop a firm grasp of the subject matter by doing problems, you should do as many problems as you can. The more problems you do the easier you will find the internal assessments. This does not mean, however, that you should memorise answers. As Thomas Nechyba (the textbook's author) says, "the modern world has few rewards for people who are really good at memorising but offers much to those who can conceptualise ideas and integrate them with one another". The aim is to think clearly in general without relying heavily on memorisation.

Hal Varian, the author of another very good microeconomics textbook (used in previous years), writes: "Students often tell us 'I read the textbook and I thought I understood it, but when I try to do the problems, I don't know where to start.'"

If you get stuck, don't worry. You will not be alone. The distinction Varian draws above is between understanding in the sense of following what someone else is doing (reading the book) and understanding in the sense of being able to do the work on your own (solving problems). You should aim at the latter.

Assessment

The paper is assessed by a continuous assessment as follows:

- Weekly Assignments: 20%
- Internal Assessment 1: 40%
- Internal Assessment 2: 40%

Please note that you must attend class and check Blackboard to stay up-to-date in case any changes in schedule are announced.

If you miss a weekly assignment or internal assessment without good reason, you will be awarded a mark of zero (assessment schedules will not, in general, be rearranged if you miss one). In the case of illness a Health Declaration Form will normally be required to be filled out. The form is available at www.otago.ac.nz/study/exams

If you consider your performance to be seriously impaired, or if you are too ill to sit an internal assessment, you can apply for Special Consideration. To do this you will need to obtain an application form from the University Information Centre or Student Health. Please note that applications for Special Consideration must be made within five calendar days from the date of the last internal assessment for which the application applies and must be accompanied by supporting documentation such as a medical certificate.

Plagiarism/dishonest practice

Students should make sure that all submitted work is their own. Plagiarism is a form of dishonest practice. Plagiarism is defined as copying or paraphrasing another's work and presenting it as one's own. In practice this means plagiarism includes any attempt in any piece of submitted work (e.g., an assignment or quiz) to present as one's own work the work of another (whether of another student or a published authority).

Any student found responsible for plagiarism in any piece of work submitted for assessment shall be subject to the University's dishonest practice regulations which may result in various penalties, including forfeiture of marks for the piece of work submitted, a zero grade for the paper, or in extreme cases exclusion from the University.

We hope you enjoy ECON371!

We do!

Peter and Paul 😊