

A. Gantner/A. Kononov

Microeconomics

(Compulsory Module in the Master Program Applied Economics)

4St. WS 08/09

General Remarks

The course “Microeconomics“ will be taught in English. It consists of a weekly 2-hour lecture (LV-Nr.: 432131) as well as a 2-hour proseminar (LV-Nr.: 432132), which are jointly given by Dr. Alexander Kononov and Dr. Anita Gantner).

Why do we need to study microeconomic theory? The simple answer is a better understanding of economic activity, which helps an agent in an economic system to better understand the way markets work. This, in turn, allows him to achieve better outcomes for himself.

The lecture will start by covering basic consumer theory. We will study how market demand is derived from the utility maximizing behaviour of individual consumers and how it changes with prices and income. We will investigate how choices of agents are affected by conditions of uncertainty and decisions that have to be taken over time.

In general equilibrium model, multiple agents trade the goods among themselves in attempt to make themselves better off. We will answer the questions of what is the outcome of such a process and whether such an outcome is desirable. Finally, we touch the subject of information economics and study situations of information asymmetry, that is, situations where some economic agents possess some knowledge that others do not.

The 2-hour proseminar will approach the questions above from the side of the producer. We will study the technology of a firm and see how this constrains a firm's goal of profit maximization. We will study optimization and comparative statics in order to predict outcomes and the effect of changes to these outcomes at the optimum. We will see why profit maximization and cost minimization as two possible approaches to represents a firm's goal are just two sides of the same coin.

While we focus on private goods in the first part, the provision of public goods will be a topic for the second part of the seminar. Private goods are usually purchased and consumed by individuals, and the purchaser can exclude others from consuming his good. This is not the case for public goods. For example, clean air is a public good since nobody can be excluded from breathing it, even if he has not contributed anything to keeping the air clean. The challenging question here is how to ensure that people contribute the efficient amount for a public good. We study a price system that supports an efficient allocation of the public good as well as some other mechanisms that reveal the true value of each agent for the public good.

Requirements

Basic knowledge of microeconomics as well as the willingness to deal with formal models.

Target group

Students of the upper division.

Course credits within the curriculum

This course is compulsory for the Master Program Applied Economics.

Time and Place

The lecture will take place weekly on Thursdays from 14:00-15:45 in SR 9, starting October 9, 2008.

The corresponding 2-hour proseminar will take place weekly on Wednesdays from 14:00-15:45 in SR 9, starting October 8, 2008.

We will have a preliminary meeting on Thursday, October 2, 14:15 in SR 9 to present the organization of this course. Please do attend this meeting.

Outline of Contents

Lecture:

1. Consumer Theory

Consumer preferences, utility maximization
Comparative statics, the Slutsky equation
Budget constraints, aggregate demand

2. Equilibrium Analysis

Walrasian equilibrium, Pareto optimality
Existence of Walrasian equilibrium
The first and the second welfare theorems
Stability of equilibrium

3. Uncertainty and Time

Lotteries, expected utility and risk aversion
Intertemporal preferences and general equilibrium over time
Asset markets

4. Information

The principal-agent problem, hidden action
Moral hazard, hidden information
Adverse selection, signalling

Proseminar:

1. Producer Theory

Technology of a firm, production functions, returns to scale
Profit maximization, factor demand function, profit function
Cost minimization, conditional factor demand functions, cost function

2. Welfare

Welfare criteria, welfare functions
Optimal taxation

3. Public Goods

Efficient provision of a public good
Private provision of a public good
Lindahl equilibrium, Demand revealing mechanisms

4. Externalities

An example of a production externality
Solutions to the externality problem: Pigovian taxes, Property rights
Efficiency conditions with externalities

References:

The main textbook will be

Varian, H., *Microeconomic Analysis*, 3rd ed., Norton & Co. 1992

Grading Scheme for this course:

To pass this course, you need to pass three written exams, which include material from both parts of the course. Your performance in each part of this course further includes regular homework assignments. The exam dates will be November 5, December 11, and January 21.

Registration

Registration by computer ((period allotted: 15.09.2008 until 30.09.2008, 16:00).