ECONOMICS 808 **The Ohio State University** Spring 2002

**Department of Economics**

Classes: **T, TH** 1:30-3:18 (ARPS 387)

Recitations: **F** 9:30-11:18 (SB 0210)

**F** 1:30-3:18 (SB 0200)



| Prof. Dan Levin | Prof. James Peck | Rui Che |
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| **Office Hours**:<br><br>(by appointment) | **Office Hours**:<br>**M** 3:30-5:00<br>**W** 3:30-5:00<br>(or by appointment) | **Office Hours**:<br><br>(by appointment) |



Course Website: http://www.econ.ohio-state.edu/jpeck/Econ808.htm

# Syllabus--Microeconomic Theory III

Required Texts:

Varian H., 1992, *Microeconomic Analysis*, New York and London, Norton, 3ed ed.
Mas-Colell A., Whinston M. D., and Green J. R., 1995, *Microeconomic Theory*, Oxford.

Recommended Texts:

Kreps D., 1990, *A Course in Microeconomic Theory*, Princeton.

Course Objectives: This course completes the topic of General Equilibrium theory, and introduces you to market failures such as asymmetric information, externalities, public goods, and agency problems. Topics include: General Equilibrium with production and with uncertainty; models of asymmetric information in markets, including screening, signaling, and lemons; markets with externalities or public goods; optimal contracts, principal-agent models with hidden actions, and principal-agent models with hidden information; mechanism design and the revelation principle; and auction markets.

Course Requirements: There will be two exams, a midterm and a final. The final is not comprehensive (only material presented after the midterm). There will be 4-6 Problem Sets (PS), that you should turn in on the time instructed. The PS will be discussed in the Friday recitations.

Exams must be taken at the scheduled time: There will be no make-ups of the midterm (if missed, with a valid excuse, the final exam will count for 90% of the course grade). To qualify for an incomplete and a make-up final requires an appropriately documented evidence of dire medical circumstance. With 3 finals on the final exam day, or some other relevant problem, rescheduling relief is potentially available, but must be arranged before the end of the 7th week of the term and follow the priority that relief must come from your major department or college.

**Grading: Midterm 40%, Final 50%, and PS 10%**
**Midterm Exam: Tuesday, May 7, in class.**
**Final Exam: Thursday, June 13, 2002, 1:30 to 4:00 PM**

* This syllabus and other class materials are available in alternative formats upon request. Students with disabilities are responsible for making their need known to the instructor and seeking assistance in a timely manner. For more information, please contact the Office of Disability Services at 292-3307.

| **Lecture #/Date/Prof.** | **Subject** | **Readings** | **Comments** |
|---|---|---|---|
| **1. Apr 2, Peck** | GE with uncertainty | M-19, **[2]** | |
| **2. Apr 4, Peck** | GE with uncertainty | M-19 | |
| **3. Apr 9, Peck** | GE with uncertainty | M-19 | |
| **4. Apr 11, Peck** | Rothschild -Stiglitz | M-13D, **[15]** | |
| **5. Apr 16, Peck** | Spence and markets with signaling. | M-13C, **[18]** | |
| **6. Apr 18, Peck** | Ackerlof and markets for Lemons | M-19H, **[1]** | |
| **7. Apr 23, Peck** | Principal-agent: Hidden Actions | M-14 | |
| **8. Apr 25, Peck** | Principal-agent: Hidden Actions | M-14 | |
| **9. Apr 30, Peck** | Principal-agent: Hidden Information | M-14 | |

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|---|---|---|---|
| **10. May 2, Peck** | Principal-agent: Hidden Information | M-14 | |
| **11. May 7** | **MID TERM EXAM** | | **IN CLASS** |
| **12. May 9, Levin** | Auctions: Overview and Independent Private Values. | **[11], [7], [13]** | |
| **13. May 14, Levin** | Auctions with Common-Values; the Winner's Curse. | **[10], [20]** | |
| **14. May 16, Levin** | Auctions: Additional General Results. | **[8], [3]** | |
| **15. May 21, Levin** | Auctions: Experimental Evidence. | **[5], [6], [9], [12]** | |
| **16. May 23, Levin** | Externalities | M-11 | |
| **17. May 28, Levin** | Public Goods | M-11, **[4], [16], [17]** | |
| **18. May 30, Levin** | Coase Theorem | M-11 | |
| **19. June 4, Levin** | To be determined | | |
| **20. June 6, Levin** | To be determined | | |
| **Thu. June 13, 2002** | **Final Exam** | **1:30-3:30pm In Class** | |
| **Comments.** | | | |

**We hope you enjoy our course. Good luck**.

**Bibliography:**


**[1]** Akerlof G., "The Market for 'Lemons': Qualitative Uncertainty and the Market Mechanism," *QJE*, 1970.

**[2]** Arrow, K. J., "The Role of Securities in the Optimal Allocation of Risk-bearing," *Review of Economic Studies* 31 (1964), 91-96.

**[3]** Campbell C. and D. Levin, "Can the Seller Benefit from an Insider in Common-Value Auctions?" *Journal of Economic Theory,* No. 19, (2000) 106-120.

**[4]** Groves T., and J. Ledyard, "Optimal Allocation of Public Goods: A Solution to the Free Rider Problem," Econometrica, 1977.

**[5]** Kagel J., R. Harstad and D. Levin, "Information Impact and Allocation Rules in Auctions with Affiliated Private Valuations: An Experimental Study", *Econometrica*, Vol. 55, (1987), 1275-1304.

**[6]** Kagel J., and D. Levin, "The Winner's Curse and Public Information in Common Value Auctions," *American Economic Review*, No. 76 (1986) 894-920.

**[7]** "Independent-Private-Values Auctions: Bidder Behavior in First- Second- and Third-Price Auctions with Varying Numbers of Bidders" *Economic Journal*, Vol. 103, No. 419 (July 1993) 868-879.

**[8]** ____ and ____, Kagel John, and Dan Levin, "Common-Value Auctions With Insider Information," E*conometrica*, Vol. 67 (Sept. 1999), 1219-38.

**[9]** ____ and ____, "Behavior in Multi-Unit Demand Auctions: Experiments with Uniform Price and Dynamic Vickrey Auctions," *Econometrica,* Vol. 69, (March 2001), 413-54 .

**[10]** ____ and ____, "Common Value Auctions and the Winner's Curse," in press Princeton University Press .

**[11]** Klemperer Paul, "Auction Theory: A Guide to the Literature," in The Economic Theory of Auctions Vol. 1 pp 3-62. Edited by Paul Klemperer, Edward Elgar Publishing, 2000.

**[12]** Levin D., J. Kagel and J-F. Richard "Revenue Effects and Information Processing in English Common Value Auctions," *American Economic Review*, Vol. 86. No. 3 (June 1996). 442-460.

**[13]** Milgrom Paul and Robert Weber, "The Theory of Auctions and Competitive Bidding*,"* *Econometrica, V*ol. 50 , 1982, 1089-1122.

**[14]** Riley John G., and W. Samuelson, "Optimal Auctions," *AER,* 1981.

**[15]** Rothschild, M.. and J. Stiglitz, "Equilibrium in competitive insurance markets: An essay on the economics of imperfect information," *Quarterly Journal of Economics*, 80, 1976, 629-649.

**[16]** Samuelson Paul, "The Pure Theory of Public Expenditure," *Review of Economics and Statistics*, 1954, 387-89

**[17]** Samuelson Paul, "Diagramatic Exposition of a Theory of Public Expenditure," *Review of Economics and Statistics*, Vol. 37 (1955), 350-56.

**[18]** Spence, M., "Job Market Signaling," *Q. J. E.*, 1973, 355-374.

**[19]** Stole Lars, New Survey of Contract Theory. Details later,

**[20]** Wilson Robert, "A Model of Perfect Competition," *Review of Economics Studies*, 1977