Prof. James Peck
Office (440 Arps): 292-0182
e-mail: peck.33@osu.edu
Spring, 2002
MW 9:30-11:18
room DL 0705

Economics 816

Topics in Economic Theory: Syllabus and Reading List

Course Objectives: This course will provide you with useful tools for understanding current research and performing your own research on theoretical economic models. The focus will be on models of perfect and imperfect competition, where demand may be uncertain.

Course Requirements: Students will be required to present one of the papers to the class **and** to write a short (5 page) referee's report on a (different) relevant paper. The presentation and referee's report each will make up 50 % of the final grade. If there is not enough time for everyone to present a paper, then a take-home final exam will be given to those who do not present a paper.

I. Rational Expectations

*Radner, R., "Rational Expectations Equilibrium: Generic Existence and the Information Revealed by Prices," *Econometrica*, 47 (1979), 655-678.

Grossman, S. and J. Stiglitz, "On the impossibility of informationally efficient markets," *AER*, Vol. 70, 1980, 393-408.

II. Shapley-Shubik Market Game Models

*L. S. Shapley and M. Shubik, “Trade using one commodity as a means of payment,” *J. Polit. Econ.* 85 (1977), 937-968.

*J. Peck and K. Shell, “Liquid markets and competition,” *Games Econ. Behav.* 2 (1990), 362-377.

*P. Dubey, J. Geanakoplos, and M. Shubik, “The revelation of information in strategic market games: A critique of rational expectations equilibrium,” *J. Math. Econ.* 16 (1987), 105-137.

P. Dubey and M. Shubik, “A theory of money and financial institutions. 28. The noncooperative equilibria of a closed trading economy with market supply and bidding strategies,” *J. Econ. Theory* 17 (1978), 1-20.

S. Ghosal and M. Morelli, “Retrading in market games,” xerox, November 2000.

M. O. Jackson and J. Peck, “Asymmetric information in a competitive market game: Reexamining the implications of rational expectations,” *Econ. Theory* 13 (1999), 603-628.

J. Peck and K. Shell, “Market uncertainty: Correlated and sunspot equilibria in imperfectly competitive economies,” *Rev. Econ. Stud.* 58 (1991), 1011-1029.

J. Peck, K. Shell, and S. E. Spear, “The market game: Structure and existence of equilibrium,” *J. Math. Econ.* 21 (1992), 271-299.

III. Information Cascades

Banerjee, A., "The Economics of Rumours," *Rev. Econ. Studies*, 1993, 309-328.

*Bulow, J. and P. Klemperer, "Rational frenzies and crashes," *J. Polit. Econ.*, 102 (1), 1994, 1-23.

IV. Search Models

*Burdett, K. and K. Judd, "Equilibrium Price Dispersion," *Econometrica*, 1983, 955-969.

Robert, J. and D. O. Stahl II, "Informative price advertising in a sequential search model," *Econometrica*, 1993, 657-686.

Diamond, P., "Search Theory," in *The New Palgrave: Allocation, Information, and Markets*, (J. Eatwell, M. Milgate, P. Newman, eds.), The Macmillan Press Limited, W. W. Norton: New York and London, 1989, 271-286.

V. Models of Price-Quantity Competition with Demand Uncertainty: Zero Search Cost

*Prescott, E. C., “Efficiency of the Natural Rate,” *Journal of Political Economy*, 1975, vol. 83, no. 6, 1229-1236.

*Dana, J. D. Jr. (1998), “Advanced purchase discounts and price discrimination in competitive markets,” *Journal of Political Economy*, 106, 395-422.

*Dana, J. D. Jr. (1999), “Using Yield Management to Shift Demand When the Peak Time is Unknown,” *Rand Journal of Economics*, 30, 456-474.

Deneckere, R., H. P. Marvel, and J. Peck, “Demand Uncertainty, Inventories, and Resale Price Maintenance,” *Quarterly Journal of Economics*, August 1996, 885-913.

VI. Models of Price-Quantity Competition with Demand Uncertainty: Infinite Search Cost

*Carlton, D.W., “Market behavior with demand uncertainty and price inflexibility,” *American Economic Review* 68 (1978), 571-587.

*Deneckere, R. and J. Peck, “Competition over price and service rate when demand is stochastic: a strategic analysis,” *Rand Journal of Economics* 26 (1995), 148-162.

Dana, J.D. Jr. (2001), “Competition in price and availability when availability is unobservable,” *Rand Journal of Economics* 32, 497-513.

VII. Bank Runs and Financial Crises

*Diamond, D. W. and P. H. Dybvig, “Bank runs, deposit insurance, and liquidity,” *Journal of Political Economy* 91, 1983, 401-419.

*Peck, J. and K. Shell, “Equilibrium Bank Runs,” *J. Polit. Econ.*, forthcoming.

*Morris, S. and H.-S. Shin, “Unique Equilibrium in a Model of Self-Fulfilling Currency Attacks,” *American Economic Review* 88(3), June 1998, 587-97.

VIII. (Time permitting) Speculation and Sunspot Equilibria

*Tirole, J., "On the possibility of speculation under rational expectations," *Econometrica* 50 1982, 1163-1181.

Jackson, M. and J. Peck, "Speculation and Price Fluctuations with Private, Extrinsic Signals,"

J. Econ. Theory, 55, 1991, 274-295.

Morris, S., “Trade with Heterogeneous Prior Beliefs and Asymmetric Information,” *Econometrica*, Vol. 62, No. 6, 1994, 1327-1348.

Hart, O. and D. Kreps, "Price destabilizing speculation," *J. Polit. Econ.*, October 1986, 927-952.

Manuelli, R. and J. Peck, "Exchange rate volatility in an equilibrium asset pricing model," *IER* (31), 1990, 559-574.

Kyle, A. S., "Informed speculation with imperfect competition," *Rev. Econ. Studies*, 56 (1989), 317-355.

Cass, D. and K. Shell, "Do Sunspots Matter?", *J. Polit. Econ.*, 91 (1983), 193-227.

*Azariadis, C., "Self-fulfilling prophecies," *J. Econ. Theory*, 25 (1981), 380-396.

Manuelli, R. and J. Peck, "Sunspot-like effects of random endowments," *J. Econ. Dynamics and Control* 16, 1992, 193-206.

This publication/material is available in alternative formats upon request. Please contact Michelle Wilgenburg (410-F Arps Hall, 292-6702) for further information. Students with disabilities are responsible for making their needs known to the instructor and seeking assistance in a timely manner.