Fall 2015 / MWF 3:30–4:50pm / Mumford Hall 316N

ACE 592 ME: Microeconomic Theory

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Administrative Details

Class hours

Lectures will be held Mondays and Wednesdays from 3:30–4:50 pm. If we are in the middle of something important at 4:50, we will finish it. I will do my best to end at 4:50. Please prepare for, attend and participate in all of the lectures.

We will discuss problem sets and other questions you might have on Fridays from 3:30–4:50pm. I strongly encourage you to attend.

Office hours

I will have office hours on Tuesdays and Thursdays at 3:30-5:00pm. Sign up for a time slot on my website: http://barrettkirwan.com—click on Office Hour Sign Up at the top of the page, then click on the link above the sign-up sheet. Please email or text me if you would like to make an appointment for some other time.

Course Description and Objectives

This is a typical first-semester PhD course in microeconomics theory. The purpose of the course is to ground you in some theoretical fundamentals that will serve as a foundation for the rest of your studies, and will prove useful to you for the rest of your career. Unlike the other three microeconomics courses in our department's series of Core courses, the focus of this course will be much more theoretical than applied. You will learn some mathematics foundational for microeconomic theory. You will become much more efficient at mathematical proofs. This course is not meant to be an end in itself—you won't be suffering through abstract mathematical concepts for the sake of those concepts. Rather, you will be suffering through abstract mathematical proofs to put "tools" in your "toolbox" that are necessary for you to conduct applied microeconomics research at a very high level.

My Teaching Philosophy

Why are you taking this class? This is an important question. Let me help you unpack the importance of this question a little bit. Recently, some "top young economists" were asked "to identify the biggest unanswered questions in economics and predict what breakthroughs will define it a decade or two hence."[1] Here's what they said:

Leeson My candidate for the biggest unanswered question in economics is the status of the rationality postulate: the decision to analyze actors as utility maximizers with consistent preferences.

Chetty The traditional state of economics is captured by the joke about ten economists, each of whom has a different theory of how the world works, none of which is directly tested or verified. ...While theory will play an important role in guiding this research, its assumptions and conclusions will increasingly be empirically founded.

Gabaix The most central open question in economic theory, as I see it, is how to model realistic economic agents. Traditionally, economists have relied on the rational-actor model, but it is clear that it is just a rough caricature.

Wolfers Specifically, the tools of economics will continue to evolve and become more empirical. Economic theory will become a tool we use to structure our investigation of the data.

You get the idea.[2] To excel in this field, you need to develop a firm foundation as an *empiricist*. Let me remind you that this class is *Advanced Microeconomic Theory*. And the primary text was penned nearly 20 years ago. So, why are you taking this class?

If you are going to excel in this class, you need to answer this question; I'm not going to answer it for you. Instead, I'm going to emphasize two facts. Fact #1 *You are an adult*. Fact #2 You are pursuing a degree in *applied* economics. Keep these things in mind as you formulate your answer, and you'll be OK.[3]

Bottom Line

Ultimately, this is a theory course. An important objective of the class is to understand the underlying assumptions and their implications well enough to empirically test them and modify them in your own research.

Grading

I will use traditional grading criteria: 90-100%=A, 80-89%=B, 70-79%=C, etc. Students' work will be judged based on Problem Sets (25% of course grade), two midterm examinations (40% of course grade), and a comprehensive final examination (35% of course grade).

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[1] The blue text is hyperlinked; click on it to go to a relevant web site.

[2] In case you don't, Krugman gives a scathing review of the current state of the profession here: `http://www.nytimes.com/2009/09/06/magazine/06Economic-t.html?_r=1`

[3] If this discussion seems way to existential to you, see Fact #1. It's time to start asking these questions.

Homework

You will receive a new problem set each week. The problem sets will be distributed on Monday evenings. They will be due at the beginning of class on Mondays the week after they are distributed. Homework will be returned to you on Wednesday, and, if necessary, we will work problem-set problems in class on Friday. If you turn in hand-written solutions, be sure they are legible. If I have difficulty interpreting your handwriting, I will ask you to type up your solutions.

Copying There are various answer keys floating around for all of the homework questions assigned from the books. You should ignore these! They aren't always right, and you won't learn what you need to know if you use these as a "crutch." Any answers copied verbatim (or nearly verbatim) from these sources will receive zero points.

Working in Groups (Survival Strategy) The problem sets assigned to you may be difficult. I encourage you to study in small groups and work on problem sets in small groups. "Of course, examinations will continue to be lonely experiences." (Dr. David Bullock)

Exam dates

- The first midterm exam will be held on Wednesday, September 23, 3:30–4:50 p.m.
- The second midterm exam will be held on Wednesday, November 18, 3:30–4:50 p.m.
- The final exam will be held on Thursday, December 17, 7:00–10:00 p.m.

Text

"Officially" the primary text in this class is Mas-Colell, Whinston, and Green (1995). I will also use two other texts: Rubinstein (2012) and Jehle and Reny (2001). Jehle and Reny is more readable and still covers much of the course material in about half as much space.

Let me explain the benefits of using Rubinstein (2012). First and foremost, Rubinstein emphasizes the fundamental assumptions that underly most of what we do in economics. If you are truly going to make a contribution to the field of economics, you need to know and understand these fundamental assumptions. No other text covers these primary building blocks as well as Rubinstein. I anticipate that this will be one of your comparative advantages; most other courses disregard the fundamental assumptions and just start taking derivatives.

You also should keep in mind two supplemental texts: Kreps (1990) and Varian (1992). Kreps is the most intuitive and Varian is the most concise. Students vary as to which approach works for them; you may find you like different books for different topics. Nicholson and Snyder (2008) is an intermediate undergraduate text; if your economics background is weak, you may find Nicholson easier going for getting the main ideas without as much mathematical detail. However, the level of detail in Nicholson will not be sufficient for this course. Lecture notes will serve as a guide as to which topics are required and which are not; not all topics will be covered in the texts.

Academic Integrity

The University of Illinois at Urbana-Champaign Student Code should also be considered as a part of this syllabus. Students should pay particular attention to Article 1, Part 4: Academic Integrity. Read the Code at the following URL: http://studentcode.illinois.edu/.

Academic dishonesty may result in a failing grade. Every student is expected to review and abide by the Academic Integrity Policy: http://studentcode.illinois.edu/. Ignorance is not an excuse for any academic dishonesty. It is your responsibility to read this policy to avoid any misunderstanding. Do not hesitate to ask the instructor(s) if you are ever in doubt about what constitutes plagiarism, cheating, or any other breach of academic integrity.

Students with Disabilities

To obtain disability-related academic adjustments and/or auxiliary aids, students with disabilities must contact the course instructor and the as soon as possible. To insure that disability-related concerns are properly addressed from the beginning, students with disabilities who require assistance to participate in this class should contact Disability Resources and Educational Services (DRES) and see the instructor as soon as possible. If you need accommodations for any sort of disability, please speak to me after class, or make an appointment to see me, or see me during my office hours. DRES provides students with academic accommodations, access, and support services. To contact DRES you may visit 1207 S. Oak St., Champaign, call 333-4603 (V/TDD), or e-mail a message to disability@uiuc.edu. http://www.disability.illinois.edu/.

Emergency Response Recommendations

Emergency response recommendations can be found at the following website: http://police.illinois.edu/emergency/. I encourage you to review this website and the campus building floor plans website within the first 10 days of class. http://police.illinois.edu/emergency/floorplans/.

Family Educational Rights and Privacy Act (FERPA)

Any student who has suppressed their directory information pursuant to Family Educational Rights and Privacy Act (FERPA) should self-identify to the instructor to ensure protection of the privacy of their attendance in this course. See http://registrar.illinois.edu/ferpa for more information on FERPA.

References

Jehle, G. A and P. J Reny (2001). *Advanced Microeconomic Theory*. Vol. 2. Addison-Wesley.

Kreps, D. M (1990). *A Course in Microeconomic Theory*. New York, NY: Harvester Wheatsheaf.

Mas-Colell, A., M. D Whinston, and J. R Green (1995). *Microeconomic Theory*. Vol. 1. New York, NY: Oxford University Press.

Nicholson, W. and C. Snyder (2008). *Microeconomic Theory: Basic Principles and Extensions*. South-Western Pub.

Rubinstein, Ariel (2012). *Lecture Notes in Microeconomic Theory*. Second Edi. Princeton, New Jersey: Princeton University Press.

Varian, H. R (1992). *Microeconomic Analysis*. New York: W.W. Norton.