

Econ 470 - Advanced Microeconomic Theory

Course Syllabus - Winter 2011

1 Course Details

1.1 Instructor:

- Ken Jackson
- Office: P3104; Phone: ext. 2316
- E-mail: kjackson@wlu.ca
- Website: <http://www.wlu.ca/sbe/kjackson/>
- Office hours: (Subject to Change) Tuesday-Thursday, 10:00-11:30am, or by appointment

1.2 E-mail

All e-mail related to the course should include 'EC470' in the subject line. While I check e-mail regularly when I am at the university I do not always check e-mail in the evening or on weekends. You should not expect an immediate response so please do not leave your questions until the last minute. All course related material (proposals, papers) must be submitted through MyLearningSpace, and where questions will be relevant to other students, I encourage you to ask them on the MyLearningSpace discussion board.

1.3 Course Description

An in-depth study of microeconomic theory and its applications as represented by published articles in academic journals and other contemporary literature. Topics may include moral hazard, adverse selection, principal-agent interactions, problems relating to insurance markets, co-operation through self-interest and endogenous market structure. [From the WLU Calendar]

In particular, we will focus on incomplete information, and its effect on strategic management in a variety of settings.

1.4 Text and Readings

There is no required textbook for the course, as we will work through a series of articles published in the academic literature. Many of the topics are introduced in modern intermediate microeconomics texts, such as Varian, and it may be useful to have one available. The articles listed below are divided between required, recommended, and further reading. I will cover both required and recommended articles, but will not expect students to know the material in the sections of the "recommended articles" that have not been fully covered in class.

2 Evaluation

There are two main areas of evaluation for this course. One-third (1/3) of your grade will come from a short paper and the associated peer-editing process. Two-thirds (2/3) of your grade will come from the final exam and a series of 4 quizzes.

2.1 Theoretical Review - 33%

- A review of the economic theory related to a particular problem in strategic management. Note that “management” should be taken to include any principal in a principal-agent setting, and could include a wide variety of circumstances in both the private and public sectors. Agents can include employees, customers, politicians (or voters), or a variety of other stakeholder groups. The paper will review the current research that is relevant to the problem, with the goal of reaching a conclusion on the answer to the particular problem. It is not merely an accounting of the major papers in a particular area, and must develop a specific argument around a well-defined thesis. We will discuss details of this further in class.

1. January 21st, 8am - Topic proposal
2. February 14th, 8am - submit via DropBox a rough draft for peer-editing. This will not be marked. Late drafts will not be accepted.
3. February 18th, 4pm - Peer-editing, round 1 due.
4. March 14th, 8am - submit via Drop Box a second draft for peer-editing. This also will not be marked. Late drafts will not be accepted.
5. March 18th, 4pm - Peer-editing, round 2 due.
6. April 6th, 8am - Submit the final paper via Drop Box.

2.2 Quizzes and Exams - 67%

- There is a mandatory, cumulative, final exam scheduled during the exam period.
- If you write no quizzes, this will form 100% of your “exam” grade.
- There will be 4 quizzes, tentatively scheduled for Jan.19th, Feb.9th, Mar.9th and Mar.30th.
- The quiz schedule is subject to change, with notice provided both in class and on the CMS
- All quizzes will start sharply at 8:30, and end at 9:15 (don’t be late)
- Each quiz will replace 12.5% of your exam grade, if you receive a better mark than you do on the final.
- Missed quizzes are automatically shifted to the final exam - no notes or excuses required.
- Each quiz is an opportunity to improve your grade with no risk. I strongly recommend that you study for and write all 4 quizzes.
- Quizzes and the final exam will consist of short-answer questions requiring both written and algebraic answers.

3 Other Details

3.1 Regrading

Regrade requests on any item of assessment will only be considered if submitted within one week of receipt of the mark for that item, and accompanied by a written statement of the substantive grounds for the request. The entire assignment/exam will be regraded and the final mark could increase or decrease.

3.2 Accessible Learning Statement

Students with disabilities or other special needs are advised to contact Laurier's Accessible Learning Centre for information regarding its services and resources. Students are encouraged to review the Calendar for information regarding all services available on campus.

3.3 Academic and Research Misconduct

You are reminded that the University will levy sanctions on students who are found to have committed, or have attempted to commit, acts of academic or research misconduct. You are expected to know what constitutes an academic offense, to avoid committing such offenses, and to take responsibility for your academic actions. For information on categories of offenses and types of penalty, please consult the relevant section of the Undergraduate Academic Calendar. If you need clarification of aspects of University policy on Academic and Research Misconduct, please consult your instructor. Wilfrid Laurier University uses software that can check for plagiarism. Students may be required to submit their written work in electronic form and have it checked for plagiarism.

Two situations that have arisen in the past include correct citation and paper duplication. For a review of the rules regarding summarizing, paraphrasing and quoting existing work, please see the [handout from the writing centre](#). On paper duplication, if your paper topic is similar to work that you have completed, are currently working on, or intend to do for another course, please see me. The paper for this course must be substantively different from any previous, concurrent or future work, though it is OK to have multiple papers on similar topics.

4 Course Outline and Tentative Calendar

The schedule is subject to change at the instructor's discretion. You will be notified of any changes. All papers are noted as required, recommended, or not required, and the online version contains links to the articles.

4.1 Cooperation and Self-Interest

1. January 5th - Introduction to the course
2. January 10th - Game theory basics, further discussion of the review paper
3. January 12th - Cooperation
4. January 17th - Cooperation with incomplete information
5. January 19th - Quiz #1, proposals due Friday, Jan.21st

4.1.1 Reading List

- [An Introduction to Applicable Game Theory - Robert Gibbons](#) - Required by January 10th
- [Trust and Vulnerability - Chris Bidner and Ken Jackson](#) - Required by January 12th

4.2 Economics of Hidden Characteristics

1. January 24th - Lemons model - Akerlof paper, warranties
 2. January 26th - Education model - Spence
 3. January 31st - Insurance - Stiglitz
 4. February 2nd - Advertising - Milgrom and Roberts
 5. February 7th - Product Quality and Consumer Differentiation
 6. February 9th - Quiz #2, comments on constructing paper drafts (due Feb.14th)
- [The Market for "Lemons": Quality Uncertainty and the Market Mechanism - George Akerlof](#) - Required for January 24th
 - [Job Market Signaling - Michael Spence](#) - Required for January 26th
 - [Equilibrium in Competitive Insurance Markets: An Essay on the Economics of Imperfect Information - Michael Rothschild and Joseph Stiglitz](#) - Recommended for January 31st.
 - [Price and Advertising Signals of Product Quality - Paul Milgrom and John Roberts](#) - Recommended by February 2nd.
 - [Warranties, Moral Hazard, and the Lemons Problem - Winand Emons](#) - Not required.
 - [Premiums for High Quality Products as Returns to Reputations - Carl Shapiro](#) - Not required.

4.3 Economics of Hidden Actions

1. February 14th - Principal-Agent models generally
2. February 16th - Continued, peer reviews due Feb.18th
3. February 28th - Review, repeated games, reducing the cost of effort

4. March 2nd - Multi-task Principal
5. March 7th - Herd behaviour
6. March 9th - Quiz #3, comments on developing papers
 - **Incentives in Principal-Agent Relationships - David E.M. Sappington** - Req'd for February 14th.
 - **Multitask Principal - Agent Analyses: Incentive Contracts, Asset Ownership, and Job Design - Bengt Holmstrom and Paul Milgrom** - Recommended for March 2nd.
 - **A Simple Model of Herd Behavior - Abhijit V. Banerjee** - Recommended for March 7th.
 - **Incentives in Markets, Firms and Governments - Daron Acemoglu, Michael Kremer and and Atif Mion** - Not required.
 - **Equilibrium Unemployment as a Worker Discipline Device - Carl Shapiro and Joseph Stiglitz** - Not required.
 - **Theory of the Firm: Managerial Behaviour, Agency Costs and Ownership Structure - Michael C. Jensen and William H. Meckling** - Not required.

4.4 Information and Behavioural Economics

1. March 14th - Experimental design and basic games, second drafts due by 8am
2. March 16th - Fairness and retaliation
3. March 21st - Multi-task principals
4. March 23rd - Social norms
5. March 28th - Advertising
6. March 30th - Quiz #4, Comments on paper revisions
 - **Psychological Foundations of Incentives - Ernst Fehr and Armin Falk** (Search for Ernst Fehr in the author field.)
 - **Doing Good or Doing Well? Image Motivation and Monetary Incentives in Behaving Prosocially - Ariely, Bracha and Meier** - Required.
 - **Fairness and Incentives in a Multi-Task Principal-Agent Model - Ernst Fehr and Klaus M. Schmidt** - Recommended. Mostly covered in Fehr and Falk paper.
 - **A Fine is a Price - Uri Gneezy and Aldo Rustichini** - Recommended.
 - **Pay Enough or Don't Pay at All - Uri Gneezy and Aldo Rustichini** - Recommended.
 - **Try It, You'll Like It - Lee, Frederick and Ariely** - Recommended.
 - **Fairness and Retaliation: The Economics of Reciprocity - Ernst Fehr and Simon Gächter** - Recommended. Very similar to the paper by Fehr and Falk.
 - **Incentives and Prosocial Behaviour - Roland Benabou and Jean Tirole** - Not required.

4.5 Final Exam and Review

1. April 4th - Review
2. April 7th - 28th - Exam period. Any conflicts with the final exam must be submitted to the petitions office directly.