

**Prof. Emilson C. D. Silva**

**Spring 2012**

Office: 205 Old CE Building

Office phone: 404.385.1076

E-mail: emilson@gatech.edu

Office hours: Fridays: 4:00pm - 5:00pm or by appointment.

Class Location: G10, Old CE Building.

### **ECON 7013: Microeconomic Theory II**

The objective of this course is to provide you with the tools, techniques and, most importantly, the intuition underlying the theoretical microeconomic framework utilized to analyze the basic economic properties (efficiency and equity) of environments in which: (i) individuals voluntarily provide public goods; (ii) consumption and/or production activities generate external effects (i.e., effects that lie outside the scope of markets, which are commonly referred to as externalities); (iii) there are informational asymmetries, stemming from hidden action (moral hazard) and/or hidden type (adverse selection); (iv) prices and quantities of all goods and services are endogenously determined in the economic system (general equilibrium); (v) utility functions of all consumers in society are aggregate into a functional denoted social welfare function, which enables one to assert whether or not the economy's general equilibrium allocation is socially optimal; (vi) consumers and producers face uncertainty; (vii) consumers and producers make intertemporal decisions; and (viii) governments (or firms) design incentive mechanisms under incomplete information in order to advance socially (corporately) desirable goals. We shall start the course by examining the economic properties of environments in which public goods, externalities and informational asymmetries present themselves in partial equilibrium models. We will then move to general equilibrium analysis, considering first simple settings in which no production takes place (exchange economies). We will add complexity to such settings (allowing for production, public goods, externalities, informational asymmetries, uncertainty, intertemporal decision making, aggregation of preferences and utilities, and mechanism design) and examine the impacts produced by addition of each component. We anticipate that in order to cover all these topics we will need to sacrifice coverage of some topics in the level of detail that they are discussed in the textbook. However, you will fully understand each topic's fundamental issues.

The main textbook for the course is:

Mas-Colell, A., Whinston, M. D. and Green, J. R., *Microeconomic Theory*, Oxford University Press, 1995.

We will also use the following textbook:

Varian, Hal R., *Microeconomic Analysis*, 3<sup>rd</sup> ed., W.W. Norton & Company, Inc., 1992.

The content of class notes, handouts and assigned reading of outside materials (articles and books) will overlap with the content of material covered in the books. Of the main textbook, we will cover chapters 11, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22 and 23. Grades will be based on Problem Sets, a Midterm Exam and a Final Exam. There will be 5 Problem Sets. Each Problem Set will be worth 4% of the entire grade for the course. The remaining 80% of the course grade will come from the exams: The Midterm and Final Exams will each be worth 40%. **Both exams are comprehensive.** The dates of exams are: (i) **Midterm Exam: February 29 (in class)**; (ii) **Final Exam: May 2, 2:50pm - 5:40pm.**