

DETAILED INFORMATION FOR MICROECONOMICS 2

“Licenciatura Bilingüe”

Academic Year: 2006/2007

PROFESSOR:

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🖥 <http://www.unav.es/economia/microeconomics2>

CLASS SCHEDULE:

Monday	08:00 – 08:45	09:00 – 09:45	Room 09 (CCSS)
Thursday	12:00 – 12:45	13:00 – 13:45	Room 09 (CCSS)

Practical classes will take place every other week (on Thursday) according to the above indicated schedule. These classes will take place on the following days: 22/02, 08/03, 22/03, 17/05, 31/05.

OFFICE HOURS:

Monday	18:00 – 19:00	Office 2961
Tuesday	11:00 – 13:00	Office 2961

BASIC LITERATURE:

(In Spanish)

Robert S. Pindyck – Daniel L. Rubinfeld: *Microeconomía*, Prentice Hall, 5^a edición

Hal R. Varian: *Microeconomía intermedia*, Antoni Bosch, 5^a edición

(In English)

Robert S. Pindyck – Daniel L. Rubinfeld: *Microeconomics*, Prentice Hall, 6th edition

Hal R. Varian: *Intermediate Microeconomics*, W.W. Norton & Company, 5th edition

GRADING:

Your final grade is based on the following two elements:

- i) During the semester you will have the possibility to hand in the complete solution of the exercises selected by the professor. You may present these solutions in groups of at most 4, and you can guarantee up to 25% of your final grade with their help. The exercises and the corresponding deadlines will be announced both on class and on the course web-site.
- ii) The rest (75%) of the final grade depends on the compulsory exams. The mid-term exam constitutes one third, while the final two thirds of this part of the grade.
- iii) Problem sets are not compulsory, and will be taken into account only if they increase your final grade.

The following formula will be used to compute your final grade:

$$Grade_{final} = \max \left\{ \begin{array}{l} 0.25 \cdot Grade_{problem\ sets} + 0.75 \cdot (1/3 \cdot Grade_{midterm\ ex.} + 2/3 \cdot Grade_{final\ ex.}) \\ 1/3 \cdot Grade_{midterm\ ex.} + 2/3 \cdot Grade_{final\ ex.} \end{array} \right\}$$

DETAILED SYLLABUS:¹

PART I

NON-COMPETITIVE MARKET STRUCTURES

Topic 1. The monopoly (PR, Chapter 10 – V, Chapter 24)

- 1.1 The Monopolist's Optimal Decision
(*Profit maximization. The monopolist's output decision. Shifts in demand and the effect of a tax on the optimal decision.*)
- 1.2 Market power – Monopoly
(*Sources and measurement of monopoly power.*)
- 1.3 The Social Costs of Monopoly Power
(*Deadweight loss from monopoly power. Price regulation.*)
- 1.4 Monopsony on the Labor Market
(*Monopoly and Monopsony. Monopsony power. The social costs of monopsony power.*)

Topic 2. Pricing with Market Power (PR, Chapter 11 – V, Chapter 25)

- 2.1 Price Discrimination
(*First, Second and Third Degree Price Discrimination. Intertemporal Price Discrimination.*)
- 2.2 Non-linear Prices
(*Peak-Load Pricing. The Two-Part Tariff.*)
- 2.3 Bundling

Topic 3. Monopolistic Competition and Oligopoly (PR, Chapters 12 and 13 – V, Chapters 27 and 28)

- 3.1 Monopolistic Competition
(*Equilibrium in the short run and the long run.*)
- 3.2 Game Theory and Competitive Strategy
(*Games. Dominant strategies. Maximin strategies. Pure and mixed strategies. Normal form and extensive form. Nash equilibrium. Subgame perfect equilibrium. Repeated games. Auctions.*)
- 3.3 Oligopoly
(*The Cournot model. The Stackelberg model. The Bertrand model.*)
- 3.4 Cartels
(*Analysis of cartels.*)

¹ The letters PR are used as a short-hand notation for the textbook by *Pindyck – Rubinfeld*, while V for the textbook by *Varian*.

PART II
GENERAL EQUILIBRIUM AND EFFICIENCY

Topic 4. The Exchange Economy (PR, Chapter 16 – V, Chapters 29, 30 and 31)

- 4.1 The Edgeworth Box and the Contract Curve
- 4.2 Pareto Efficiency and Equity
- 4.3 The Production Possibilities Frontier
- 4.4 Competition and Global Efficiency
- 4.5 The Gains from Free trade. Absolute and Comparative Advantage

PART III
INFORMATION, MARKET FAILURES AND PUBLIC GOODS

Topic 5. Markets with Asymmetric Information (PR, Chapters 5 and 17 – V, Chapters 12 and 36)

- 5.1 Choice under asymmetric information and insurance
(The description of risk and the utilities for risk. Insurance market.)
- 5.2 Adverse Selection and Signaling.
(The market for “lemons”. A simple model of signaling.)
- 5.3 Moral Hazard and Incentives
(The principal-agent model.)

Topic 6. Externalities and Public Goods (PR, Chapter 18 – V, Chapters 32 and 35)

- 6.1 Market failures
- 6.2 Externalities and Property Rights
(Positive/negative externalities and inefficiency. Common property resources ways of correcting market failure. The Pigou tax. The Coase theorem.)
- 6.3 Public Goods
(Efficiency and public goods.)