

**Simon Fraser University
Department of Economics**

Course: ECON 402-3 Advanced Topics in Microeconomics

Hours: Tue 11:30 am - 1:20 pm in RCB 6101 and Thu 11:30 am – 12:20 pm in WMC 2533

Instructor: Anke Kessler (WMC 4667)

E-mail: akessler@sfu.ca **Office Hours:** Thursdays 9:30 - 11:20 or by appointment

Objective: The aim of this course is to familiarize students with some of the techniques used in the analysis of contemporary Microeconomic theory, to foster their understanding of the purpose of theoretical models, as well as their ability to use those models to analyze a problem and draw correct inferences. In doing so, the course will deepen students' understanding about the a specific field in Microeconomic theory, namely the economics of contracts and asymmetric information. By the end of the course, students will have gained an understanding of economic theory as an essential part of the scientific approach in economics, and have a sense of how to construct a basic theoretic model. They should also have developed a sound analytical knowledge about what constraints informational asymmetries place on the efficiency and profitability of economic transactions in both market and non-market environments, and how institutional responses (specific mechanisms/contracts) can help address these problems.

Outline:

- I. Introduction
- II. Asymmetric Information and the Failure of the Coase Theorem
 1. The Coase Theorem
 2. Informational Asymmetries: An Example
- III. Adverse Selection, Signalling, and Screening
 1. Adverse Selection in Markets
 2. Excursion: Bayesian Games
 3. Signalling in Markets
 4. Monopolistic Screening
- IV. Moral Hazard
 1. A Basic Moral Hazard Model
 2. Excursion: Choice under Uncertainty
 3. Moral Hazard and Exposure to Risk
 4. Relational Contracts (time permitting)

Reading: There is no required text for this class. Below is a list of advanced micro textbooks that you may find helpful. I will place them on reserve in the library. The first three are textbooks on microeconomic theory, all of which contain chapters on choice under uncertainty, asymmetric information, basic contract theory, and game theory (Kreps being the most intuitive with strong emphasis on game theory). The book by Bolton-Dewatripont is an advanced book on contract theory. The last book by Gibbons is an intermediate/advanced level textbook that covers game theory and the economics of asymmetric information.

Varian, H.R. (1992), *Microeconomic Analysis*, 3rd ed., W.W. Norton & Company. (VAR)

Jehle G.A. and P.J. Reny (2001) , *Advanced Microeconomics Theory*, Addison Wesley. (JR)

Kreps, D.M. (1990) , *A Course in Microeconomic Theory*, Princeton University Press. (KR)

P. Bolton and M. Dewatripont (2004) , *Contract Theory*, The MIT Press.

Gibbons, R. (1992) , *Game Theory for Applied Economists*, Princeton University Press (GIB)

For some selected topics, I will assign original papers for reading. I will also make occasional use of online media resources such as podcasts and (instructional) videos. Slides covering the basic structure of the lectures are available on Canvas.

Requirements: There will be a mid-term exam and a cumulative final exam. The date of the midterm is to be determined. The date of the final is December 6, 2018. The mid-term will count for 25% of your grade, the final for 35%. *Only* if you miss the midterm for documented medical reasons will the weight of that exam be transferred to the final. In addition, we will have regular in class quizzes and bi-weekly assignments worth 15 %, as well as write a short term paper worth 25% towards your course grade. Cooperation and team work on the problem sets is recommended. You may hand in one assignment per study group (max 4 people), but keep in mind that free-riding will drastically reduce your ability to follow the class and do well on the exams. I highly encourage class participation.