ECONOMICS 200B --- MICROECONOMIC THEORY
MARKETS AND WELFARE

The principal text for (most of) the first five weeks of the course is Starr, *General Equilibrium Theory: An Introduction*. Update Starr with corrigenda on the web at http://object.cup.org/Errata/052156414Xerr.PDF ; you will need an acrobat reader to access this material. In addition we will use Mas-Colell, Whinston, and Green, *Microeconomic Theory*, Varian, *Microeconomic Analysis, 3rd edition*, Kreps, *A Course in Microeconomic Theory*. Arrow and Scitovsky, *AEA Readings on Welfare Economics*, Feldman, *Welfare Economics and Social Choice Theory*, Laffont, *Fundamentals of Public Economics*, and additional readings.

Lectures on sections I, III - VI, will parallel the treatment in Starr's *General Equilibrium Theory: An Introduction*. Please read the designated portion of Starr on each topic before the class meeting on it.

Items shown with a bullet (•) are required reading for Economics 200B. Items shown with an asterisk (*) on the syllabus were once designated by the UCSD Economics faculty as sufficient preparation for the qualifying examination in microeconomics for these topics. *-designated material overlaps and extends •-designated material; suggestion: read both. Material denoted by a dagger (†) is intended to provide additional depth and breadth for the topic presented but is not intended to appear on a class or qualifying examination.

There will be weekly problem sets required. There will be a take-home midterm and take-home final exam.

I. The Robinson Crusoe model; the Edgeworth Box in Consumption and Factor allocation

•Starr, *General Equilibrium Theory: An Introduction*, chap. 1

*Mas-Colell, Whinston, and Green, chap. 15

*Varian, chap. 17

*Jones, R., "The Structure of Simple General Equilibrium Models," *Journal of Political Economy*, 1963, pp. 557 - 72.

†Nicholson, W., *Microeconomic Theory: Basic Principles and Extensions*, 2nd ed. chap 20, including appendices.

†Cornwall, R. R., *Introduction to the Use of General Equilibrium Analysis*, pp. 20-24, "Economists' View of Robinson Crusoe;" pp. 78 -83, "Partial versus General Equilibrium Analysis."

†Arrow, K. J., and F. H. Hahn, *General Competitive Analysis*, chap 1.

†Arrow, K.J., "General Economic Equilibrium: Purpose, Analytic Techniques, Collective Choice," *American Economic Review* , LXIV, v. 3, June 1974, pp. 253 - 272.

†Weintraub, E. R., " On the Existence of Competitive Equilibrium: 1930 - 1954," *Journal of Economic Literature,* XXI, March 1983, pp 1 - 39.

II. Partial Equilibrium, Comparative Statics, Consumer Surplus and Compensation Tests

•*Mas-Colell, Whinston, and Green, chap. 10

  *Varian, chaps. 10, 13
  *Kreps, sections 8.1 - 8.3
  • Feldman Ch. 7
  *Starrett, *Foundations of Public Economics*, chap. 14

III. Competitive Equilibrium - Definition and Existence

  •Starr, *General Equilibrium Theory: An Introduction*, 2.7, chaps 3 - 11.
  *Mas-Colell, Whinston, and Green, Appendix M.I, chap. 17
  *Varian, chap. 17, 18
  *Kreps, sections 6.1 - 6.4
  • Arrow-Hahn, chap. 7, appendix B.4.
  † Douglas Gale, "Bargaining and Competition Part I: Characterization"
Econometrica, Vol. 54, No. 4. (Jul., 1986), pp. 785-806.
  †Malinvaud, E. *Lectures on Microeconomic Theory*, (1st ed., 1972) chap. 2,
sections 1 - 8, chap. 3, sections 1 - 4; or same sections in the Revised edition (1985).
  †Cornwall, R. R., *Introduction to the Use of General Equilibrium Analysis*,
pp. 1-42.
  †Russell, R. and M. Wilkinson, *Microeconomic Theory: A Synthesis of Modern
and Neoclassical Microeconomic Theory*, chapters 15 and 16.
  †Arrow - Hahn, chapter 2.
  †Geanakoplos, J., "Arrow-Debreu Model of General Equilibrium," in Eatwell,
Milgate, and Newman, *The New Palgrave: General Equilibrium* (1989).
  †Uzawa, H., "Walras' Existence Theorem and Brouwer's Fixed-Point Theorem,"
Economic Studies Quarterly, v. 8, 1962, pp. 59 -62.

IV. Efficiency of Competitive Equilibrium, Fundamental Theorems of Welfare Economics

  •Starr, *General Equilibrium Theory: An Introduction*, 2.8, chap. 12.
  *Mas-Colell, Whinston, and Green, Appendix M.G, chap. 16
  *Varian, chap. 17, 18
  †Cornwall, R. R., *Introduction to the Use of General Equilibrium Analysis*,
chapter 4.
  †Arrow-Hahn, section 4-4
  †Debreu, *Theory of Value*, chapter 6.
  †Malinvaud, E. *Lectures on Microeconomic Theory*, (1st ed., 1972 or 2nd ed.,
1985) chap. 4.
  †Russell, R. and M. Wilkinson, *Microeconomic Theory: A Synthesis of Modern
and Neoclassical Microeconomic Theory*, chapter 17.
  †Koopmans, T. C., *Three Essays on the State of Economic Science*, essay I, part
2, "Competitive Equilibrium and Pareto Optimality."

V. Time and Uncertainty -- futures markets

  •Starr, *General Equilibrium Theory: An Introduction*, chap. 15.
  •Debreu, G., *Theory of Value*, chapters 2, 7.
  *Mas-Colell, Whinston, and Green, chap. 19
  *Varian, chap. 19

†Arrow, K.J., "The Role of Securities in the Optimal Allocation of Risk-Bearing," *Review of Economic Studies,* v. 31, pp. 91 -96. Reprinted in Arrow, *Essays in the Theory of Risk-Bearing* .

†Radner, R., "Uncertainty and General Equilibrium," in Eatwell, Milgate, and Newman, *The New Palgrave: General Equilibrium* (1989).

†Magill, M., and W. Shafer, "Incomplete Markets," in Hildenbrand and Sonnenschein, eds, *Handbook of Mathematical Economics*, v. IV, pp. 1523 - 1614.

†Geanakoplos, J., "An Introduction to General Equilibrium with Incomplete Asset Markets," *Journal of Mathematical Economics,* v.19, 1990, pp. 1 -38.

† Hahn, F. H., "Equilibrium with Transaction Costs," Econometrica, v. 39, 1971, pp. 417 - 439.

† Starr, R.M., "Why is there money? Endogenous derivation of 'money' as the most liquid asset: a class of examples" Economic Theory, v. 21, 455-474, (2003).

VI. Core of a Market Economy

•Starr, *General Equilibrium Theory: An Introduction*, chaps. 13, 14

*Mas-Colell, Whinston, and Green, chap. 18

*Varian, section 21.1

*Kreps, section 8.4

†Cornwall, R. R., *Introduction to the Use of General Equilibrium Analysis*, chap.5

†Debreu, G., and H. Scarf, "A Limit Theorem on the Core of an Economy," *International Economic Review*, v.4, (1963), pp. 235- 246.

•Ichiishi, T., *Game Theory for Economic Analysis,* sections 5.5, 5.6, and pp. 24, 25.

†Anderson, R.M., "An elementary core equivalence theorem," *Econometrica*, v. 46, no. 6, (Nov. 1978), pp. 1483 - 1488.

†Arrow-Hahn, chapter 8.

† Hildenbrand, W., "Cores," in Eatwell, Milgate, and Newman, *The New Palgrave: General Equilibrium* (1989).

† Foley, D. K. , "A Statistical Equilibrium Theory of Markets," *Journal of Economic Theory*, v. 62, 1994, pp. 321 - 345.

VII. Social Welfare Functions and Social Choice Theory

•Varian, ch. 17

•Feldman Ch. 8-10

•Sen, Amartya K., "Social Choice Theory," chapter 22, v. *III, Handbook of Mathematical Economics,* sections 1 & 2.

• Arrow & Scitovsky, AEA *Readings on Welfare Economics*, Arrow, "A Difficulty in the Concept of Social Welfare"

• Mas-Colell, Whinston & Green Ch. 21

*Mas-Colell, Whinston & Green 22A-C

† Chichilnisky, G. and G. Heal, "Necessary and Sufficient Conditions for a Resolution of the Social Choice Paradox," *Journal of Economic Theory*, v. 31, n. 1, October 1983, pp. 68 - 87.

VIII. Externalities
- •Feldman Ch. 5
- *Varian Ch. 24
- •Laffont Ch. 1, secs. 1.1-1.5
- *Mas-Colell, Whinston & Green Ch. 11
- † Ruff, L., "The Economic Common Sense of Pollution," *The Public Interest,* No. 19, Spring 1970, pp. 69-85.
- † Coase, R.N., "The Problem of Social Cost," *Journal of Law and Economics, 1960,* 1-44.
- † Cornwall, R. R., *Introduction to the Use of General Equilibrium Analysis,* chap. 6
- † Hardin, G., "The Tragedy of the Commons," *Science,* 162 (1968), pp. 1243-1248.

IX. Public Goods
- *Feldman Ch. 6
- *Varian Ch. 23
- • Laffont Ch. 2, sees. 2.1-2.4; Ch. 3, secs. 3.1-3.3
- *Mas-Colell, Whinston & Green Ch. 11
- † R. Russell and M. Wilkinson, *Microeconomics: A Synthesis of Modern and Neoclassical Theory,* chapter 18.
- † Starrett, D.A., *Foundations of Public Economics,* section 16.3

X. Second-Best Allocation Mechanisms: Equity, Efficiency, and Government Revenue
- •Varian Ch. 22
- *Mas-Colell, Whinston & Green Ch. 22A-C
- •Auerbach, A., *Handbook of Public Economics,* v.1, ch. 2, "The Theory of Excess Burden and Optimal Taxation"

XI. The Space of Economies and Equilibria, Computation of Equilibria
- •Mas-Colell, Whinston & Green, ch. 17.D, 17.E
- † D. J. Brown and R. Matzkin, "Testable Restrictions on the Equilibrium Manifold," *Econometrica,* v. 64, 1996, pp. 1249-1262.
- † Peter Dixon and B. R. Parmenter, "Computable General Equilibrium Modelling for Policy Analysis and Forecasting" chapter 1 in *Handbook of Computational Economics,* v. I, Amman, Kendrick and Rust, editors.

XII. Economic Theory and its Critics
- † Hahn, F.H.*, On the Notion of Equilibrium in Economics.*
- † Kaldor, N., "The Irrelevance of Equilibrium Economics," *Economic Journal,* (1972).
- † McCloskey, D., "The Futility of Blackboard Economics," chap 3 in McCloskey, *The Vices of Economists---The Virtues of the Bourgeoisie,* Amsterdam University Press, 1996.
- † Gibbard, A. and H. Varian, "Economic Models," *Journal of Philosophy,* v.75, 1978, pp. 664-677.
- † Debreu, G., "Theoretic Models: Mathematical Form and Economic Content," *Econometrica,* v.54, no. 6 (Nov. 1986), pp. 1259-1270.
- † Koopmans, T.C., *Three Essays on the State of Economic Science;* essays II and III, "The Construction of Economic Knowledge" and "The Interaction of Tools and Problems in Economics."

† McKenzie, L.W., "General Equilibrium," *The New Palgrave.*
† Clower, R. W., "Axiomatics in Economics," *Southern Economic Journal,* v. 62,
1995, pp. 307-319.