Economics 100B: Microeconomic Theory
Fall 2003, Prof. Joel Watson

This course explores how economic agents (mainly consumers and firms) interact in the market economy. We will first study equilibrium and welfare in individual markets and in individual relationships. Then we will study the various ways in which competition and/or contracting fails to be perfect, starting with the analysis of strategic interaction. We will finish with lectures on how economists model uncertainty and discuss related topics.

There will be several problem sets. The grading standards will be explained in class. Students are encouraged to study and work on problem sets with classmates, but each student must submit his/her own answers. Examinations must be completed individually.

Schedule: TTh 11:00 a.m. – 12:20 p.m., in Center Hall 216. There will also be a problem-solving/discussion session on Thursday evenings, 5:00 – 6:50 p.m., in Center Hall 214.

Examinations: There will be one midterm examination and a final examination. The final exam will take place on Tuesday, December 9, from 11:30 a.m. until 2:30 p.m. The midterm exam will be on Tuesday, October 28, during the normal class time.

Grading Weights: Midterm 37%, final 48%, and problem sets 15%.

Teaching Assistant: Chung-Chiang Chen (ccchen@econ.ucsd.edu, Econ 119).

Watson's Office Hours: T 1:00 – 1:45, W 1:00 – 2:00, and by appointment. If you cannot meet with the professor during his office hours, call or see him after class to arrange another time to meet. Room 128 (or another seminar room) in the economics building will be used for office hours when many students are present.

Textbook: Nicholson, *Microeconomic Theory*, eighth edition. Although we will not follow this book closely, it will be useful for students to have a textbook. In class, Prof. Watson will explain his textbook policy for this course.

Class Website: http://weber.ucsd.edu/~jwatson/wcourse.htm (check regularly for announcements).

The fine print:
(1) Incidents in which students are suspected of cheating on examinations will be reported to the administration.
(2) Students have one week from the day in which midterm exams are returned to report errors in grading and/or to request that problems be re-graded. Re-grading may be requested for final exams through the first week of Spring quarter. If a student submits his/her exam for re-grading, then the student's entire exam will be re-graded by the professor (with no guarantee of a higher total score).
(3) Students should attend class; their mobile phones should not. The professor will employ the necessary means to discourage classroom distractions.

Econ 100b Course Outline, Fall 2003

Timing and Textbook Chapters

Theoretical Ideal World: Perfect Competition

1. Review of Partial Equilibrium, Surplus, Efficiency,
   and Regulation — (week 1), chs. 14-15
2. The Value of Exchange — (weeks 1-2), ch. 16-17
   a. Gains from trade, efficiency
   b. Prices and equilibrium, existence and efficiency
3. General Equilibrium and Welfare — (weeks 2-3), chs. 16-17
   a. Definition and existence for production and exchange
   b. Competitive equilibrium and efficiency
   c. Effects of taxes and other issues
(4. Other Topics) — (may not cover), chs. 21-23
   a. Factor inputs
   b. Investment

The Theory of Strategic Interaction and Contracting

5. Modeling Strategic Interaction — (weeks 4-5), ch. 10
   a. Static games; strategy
   b. Equilibrium;
   c. Efficiency
   d. Repeated games

6. Contract and Enforcement — (week 6), ch. 10
   a. Types of enforcement; institutions
   b. Possible imperfections caused by information/
      verifiability problems, contracting costs

Theoretical Ideal World: Perfect Contracting

7. A Model of contractual relations — (weeks 6-7)
   a. Equilibrium
   b. Efficiency
   c. Enforcement institutions

The Real World: Market and Contractual Imperfections

8. Monopoly — (weeks 7-8), ch. 18
   a. Sources of monopoly power
   b. Behavior and welfare implications
   c. More sophisticated monopoly behavior
   d. Regulation and antitrust
9. Static Oligopoly Models — (weeks 8-9), chs. 19-20
   a. Cournot model
   b. Bertrand model, differentiated product
(10. Dynamic Oligopoly Models) — (may not cover), ch. 20
   a. Backward induction and equilibrium
   b. Stackelberg duopoly model
   c. Entry deterrence
   d. Collusion and repeated interaction
11. Classical Contract Imperfections, non-contractibility — (week 9), ch. 24
    a. Missing markets and externalities
    b. Public goods
12. Uncertainty — (week 10), ch. 8
13. Information Imperfections — (week 10), ch. 9
    a. Adverse selection: lemons, signaling
    b. Moral hazard
    c. Insurance