Economics 100B: Microeconomic Theory
Winter 2002, Prof. Joel Watson

Schedule: MWF 1:25 – 2:15, through March 15 in Peterson 108. Optional sessions may also be
scheduled.

Examinations: There will be two midterm examinations and a final examination. The final exam
will take place on Tuesday, March 19, from 11:30 a.m. until 2:30 p.m. The midterm
exams will be on Friday, January 25, and Friday, February 15, during normal class times.

Grading: Based on midterms (about 40%), final (about 50%), and problem set (10%) scores.

Teaching Assistants: Kevin King (keking@econ.ucsd.edu, Econ 126) and Piers Redmore
(predmore@econ.ucsd.edu, Sequoyah 250).

Watson's Office Hours: W 11:00 – 12:00, W 2:15 – 3:15, 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 other seminar room) in the economics building
will be used for office hours when many students are present.

Textbook: Pindyck and Rubinfeld, Microeconomics, fifth edition.

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 the economy as
a whole. Our focus here will be the efficiency of perfect competition. Then we will study the
various ways in which competition fails to be perfect, starting with the analysis of strategic
interaction in both static and dynamic models. 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.

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.

Course Outline

A Theoretical Ideal World: Perfect Competition

1. Review of Partial Equilibrium, Surplus, Efficiency,   (week 1), ch. 9
   and Regulation
2. The Value of Exchange   (weeks 1-2), ch. 16
   a. Gains from trade, efficiency
   b. Prices and equilibrium, existence and efficiency
3. General Equilibrium and Welfare   (weeks 2-3), ch. 16
   a. Definition and existence for production and exchange
   b. Competitive equilibrium and efficiency
   c. Effects of taxes and other issues
4. Contract, Enforcement, and Efficiency   (weeks 3-4)
*5. Other Topics   (may not cover), chs. 14, 15
   a. Factor inputs
   b. Investment

The Real World: Market Imperfections and Strategic Interaction

6. Overview   (week 4)
   a. Tensions in social interaction
   b. Contract imperfections
   c. Institutions
7. Monopoly   (week 4), chs. 10, 11
   a. Sources of monolpoly power
   b. Behavior and welfare implications
   c. More sophisticated monopoly behavior
   d. Regulation and antitrust
8. Modeling Strategic Interaction   (week 5), ch. 13
   a. Games and representations; strategy; contract
   b. Equilibrium; contract enforcement
9. Static Oligopoly Models   (weeks 5-6), ch. 12
   a. Cournot model
   b. Bertrand model, differentiated product
10. Dynamic Oligopoly Models   (weeks 7-8), chs. 12, 13
   a. Backward induction and equilibrium
   b. Stackelberg duopoly model
   c. Entry deterrence
   d. Collusion and repeated interaction
11. Classical Contract Imperfections   (weeks 8-9), ch. 18
   a. Missing markets and externalities
   b. Public goods
   c. Legal institutions, verifiability
12. Uncertainty   (week 10), ch. 5
13. Information Imperfections   (week 10), ch. 17
   a. Adverse selection: lemons, signaling
   b. Moral hazard
   c. Insurance