

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. 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
- Starr, draft section of second edition, "A 2×2×2 Model"
- *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.
- Starr, draft section of second edition "The Shapley-Folkman Theorem", draft chapter of the second edition "U-Shaped Cost Curves and Concentrated Preferences"
- *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
- Starr, draft chapter for the second edition, "A Large Economy without Replication"
- *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, secs. 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.

1995, pp. 307-319.