

EKT 812: Microeconomics

Jesse Naidoo

Semester 1, 2019

E-mail: jesse.naidoo@up.ac.za

Office Hours: ???

Office: Tukkieurf 2-23

Web: TBD

Class Hours: ???

Class Room: Tukkieurf 1-37

Course Description

This is a course in (mostly classical) microeconomic theory. Our goal is for you to become competent users of that theory. A secondary goal is to learn to read economic research critically. The way to achieve both of these goals is by practicing: that is, by solving lots of problems and reading lots of papers.

Below are the topics we will cover, stated “abstractly”. However, this course is heavily biased towards applications; we want to use the theory to help us understand and explain real-world applications. As you will see, the scope of applications for these tools is very wide. I have also tended to pick readings that reflect my interests in development and labor economics, although not exclusively.

Prerequisites

No prior knowledge of economics is strictly required, but you do need to understand how to solve a constrained optimization problem, and you need to know the envelope theorem. Basic algebra and calculus are required. You should also know how to compute the mean and variance of a random variable. If you do not know these things you have to revise them on your own, because our time together is scarce.

Advice

I strongly encourage you to form study groups to help each other work on the problem sets and to discuss the readings. You will learn a lot more from your classmates than from me, if you take the time to seriously attempt the assignments.

Required Texts

None. However, you may find useful complementary material in the following:

- Becker (2007)

- Stigler (1987)
- McCloskey (1985)
- Deaton and Muellbauer (1980)
- Silberg and Suen (2000)

Several of these are hard to come by, but I have asked the library to order all of them. However, McCloskey (1985) is available for (free) download from her website, and Deaton and Muellbauer (1980) is still relatively easy to find (you can get it in print or in Kindle format from Amazon, for example).

The papers I have listed below are not strictly necessary, but I assume you will want to see how the ideas and models we will study have been applied. It always helps to see an idea from several different angles.

Assessment

Class Schedule

Week 01, 02/04 - 02/08: Marshallian and Hicksian Demand

Suggested Readings

- Cunha, De Giorgi, and Jayachandran (2018)
- Dahl et al. (2016)

Week 02, 02/11 - 02/15: Welfare Measurement in Partial and General Equilibrium

Suggested Readings

- Hendren (2017)
- Atkin, Faber, and Gonzalez-Navarro (2018); Atkin and Donaldson (2015)

Week 03, 02/18 - 02/22: Durable Goods

Suggested Readings

- Hoekstra, Puller, and West (2017)
- Glaeser and Gyourko (2005)
- Bulow (1982); Mussa and Rosen (1978); Stokey (1981)

Week 04, 02/25 - 03/01: Derived Demand and Factor Markets

Suggested Readings

- Kennan (1995)
- MaCurdy (2015)
- Jardim et al. (2017)

Week 05, 03/04 - 03/08: Risk-Sharing and Insurance

Suggested Readings

- Townsend (1994)
- Bryan and Morten (2019); Morten (2019)
- Meng, Qian, and Yared (2015)

Week 06, 03/11 - 03/15: Comparative Advantage

Suggested Readings

- Willis and Rosen (1979)
- Eaton and Kortum (2002); Eaton and Kortum (2012)

Week 07, 03/18 - 03/22: Supply-Side Aggregation; Human Capital

Suggested Readings

- Rosen (1983); Rosen (1978)
- Neal and Rosen (2000)
- Heckman and Scheinkman (1987)

Week 08, 03/25 - 03/29: Autumn Break

No class; I will post a take-home midterm before the break.

Week 09, 04/01 - 04/05: Human Capital (continued)

Suggested Readings

- Neal and Rosen (2000)
- Heckman and Krueger (2004)
- Lochner and Monge-Naranjo (2012)
- Behrman (2010); Kremer and Glennerster (2011)
- Bryan, Chowdhury, and Mobarak (2014)

Week 10, 04/08 - 04/12: Efficiency in the Public Sector

Suggested Readings

- Shleifer (1998); Hart, Shleifer, and Vishny (1997)
- Muralidharan et al. (2017); Chaudhury et al. (2006)
- Galiani, Gertler, and Schargrodsky (2005)

Week 11, 04/15 - 04/19: Constraints on Supply

Suggested Readings

- Banerjee, Karlan, and Zinman (2015); Banerjee, Karlan, and Zinman (2015)
- Kaboski and Townsend (2011); Meager (2019)
- Glaeser and Gyourko (2018)
- Rosen (1981); Rosen (2002)

Week 12, 04/22 - 04/26: Competitive Markets and Hedonic Pricing

Suggested Readings

- Rosen (1974)
- Rosen (1986)
- Chay and Greenstone (2005)

Week 13, 04/29 - 05/03: Regulation and Taxation

Suggested Readings

- Ito and Sallee (2018)
- Cunningham and Shah (2018)
- Mulligan and Tsui (2016)
- Davis (2008)

Week 14, 05/06 - 05/10: Public Goods and Externalities

Suggested Readings

- Becker, Murphy, and Grossman (2006)
- Greenstone and Hanna (2014)
- Hall (2018)
- Kreindler (2018)

Week 15, 05/13 - 05/17: Non-Price Allocation

Suggested Readings

- Deacon and Sonstelie (1989)
- Weitzman (1977)
- Diamond, McQuade, and Qian (2018)

Week 16, 05/20 - 05/24: Property Rights

Suggested Readings

- Besley and Ghatak (2010)
- Hornbeck (2010)

- Field (2007)
- Galiani and Schargrodsky (2010)

References

- Atkin, David, and Dave Donaldson. 2015. "Who's Getting Globalized? The Size and Implications of Intra-National Trade Costs." NBER Working Paper Series. Cambridge, MA: National Bureau of Economic Research. doi:[10.2139/ssrn.2818941](https://doi.org/10.2139/ssrn.2818941).
- Atkin, David, Benjamin Faber, and Marco Gonzalez-Navarro. 2018. "Retail Globalization and Household Welfare: Evidence from Mexico." *Journal of Political Economy* 126 (1): 1–73. doi:[10.1086/695476](https://doi.org/10.1086/695476).
- Banerjee, Abhijit, Dean Karlan, and Jonathan Zinman. 2015. "Six Randomized Evaluations of Microcredit: Introduction and Further Steps." *American Economic Journal: Applied Economics* 7 (1): 1–21.
- Becker, Gary S. 2007. *Economic Theory*. 2nd ed. New York: Routledge.
- Becker, Gary S, Kevin M Murphy, and Michael Grossman. 2006. "The Market for Illegal Goods: The Case of Drugs." *Journal of Political Economy* 114 (1). UChicago Press: 38–60.
- Behrman, Jere R. 2010. "Incentives in Education - Inputs and Incentives." In *Handbook of Development Economics*, 1st ed., 5:4883–4975. Elsevier BV. doi:[10.1016/B978-0-444-52944-2.00011-2](https://doi.org/10.1016/B978-0-444-52944-2.00011-2).
- Besley, Timothy, and Maitreesh Ghatak. 2010. "Property Rights and Economic Development." In *Handbook of Development Economics*, 1st ed., 5:4525–95. C. Elsevier BV. doi:[10.1016/B978-0-444-52944-2.00006-9](https://doi.org/10.1016/B978-0-444-52944-2.00006-9).
- Bryan, Gharad, and Melanie Morten. 2019. "The Aggregate Productivity Effects of Internal Migration: Evidence from Indonesia." *Journal of Political Economy* (Forthcoming). doi:[10.3386/w23540](https://doi.org/10.3386/w23540).
- Bryan, Gharad, Shymal Chowdhury, and Ahmed Mushfiq Mobarak. 2014. "Underinvestment in a Profitable Technology: The Case of Seasonal Migration in Bangladesh." *Econometrica* 82 (5): 1671–1748. doi:[10.3982/ECTA10489](https://doi.org/10.3982/ECTA10489).
- Bulow, Jeremy. 1982. "Durable-Goods Monopolists." *Journal of Political Economy* 90 (2): 314–32. <https://www.jstor.org/stable/1830295>.
- Chaudhury, Nazmul, Jeffrey Hammer, Michael Kremer, Karthik Muralidharan, and F. Halsey Rogers. 2006. "Missing in Action: Teacher and Health Worker Absence in Developing Countries." *Journal of Economic Perspectives* 20 (1): 91–116. doi:[10.1257/089533006776526058](https://doi.org/10.1257/089533006776526058).
- Chay, Kenneth Y, and Michael Greenstone. 2005. "Does Air Quality Matter? Evidence from the Housing Market." *Journal of Political Economy* 113 (2): 376–424. <https://www.jstor.org/stable/10.1086/427462>.
- Cunha, Jesse M, Giacomo De Giorgi, and Seema Jayachandran. 2018. "The Price Effects of Cash Versus In-Kind Transfers." *The Review of Economic Studies*, April. doi:[10.1093/restud/rdy018](https://doi.org/10.1093/restud/rdy018).
- Cunningham, Scott, and Manisha Shah. 2018. "Decriminalizing Indoor Prostitution: Implications for Sexual Violence and Public Health." *Review of Economic Studies* 85 (3): 1683–1715. doi:[10.1093/restud/rdx065](https://doi.org/10.1093/restud/rdx065).
- Dahl, Gordon B, Katrine V Løken, Magne Mogstad, and Kari Veia Salvanes. 2016. "What is the

- Case for Paid Maternity Leave?" *Review of Economics and Statistics* 98 (4): 655–70. doi:[10.1162/REST](https://doi.org/10.1162/REST).
- Davis, Lucas W. 2008. "The Effect of Driving Restrictions on Air Quality in Mexico City." *Journal of Political Economy* 116 (1): 38–81.
- Deacon, Robert T, and Jon Sonstelie. 1989. "The Welfare Costs of Rationing By Waiting." *Economic Inquiry* 27 (2): 179–96. doi:[10.1111/j.1465-7295.1989.tb00777.x](https://doi.org/10.1111/j.1465-7295.1989.tb00777.x).
- Deaton, Angus, and John Muellbauer. 1980. *Economics and Consumer Behavior*. Cambridge, UK: Cambridge University Press.
- Diamond, Rebecca, Timothy McQuade, and Franklin Qian. 2018. "The Effects of Rent Control Expansion on Tenants, Landlords, and Inequality: Evidence from San Francisco." NBER Working Paper Series. Cambridge, MA: National Bureau of Economic Research. doi:[10.3386/w24181](https://doi.org/10.3386/w24181).
- Eaton, Jonathan, and Samuel Kortum. 2002. "Technology, Geography, and Trade." *Econometrica* 70 (5): 1741–79. <http://www.jstor.org/stable/3082019>.
- . 2012. "Putting Ricardo to Work." *Journal of Economic Perspectives* 26 (2): 65–90. doi:[10.1257/jep.26.2.65](https://doi.org/10.1257/jep.26.2.65).
- Field, Erica. 2007. "Entitled to Work: Urban Property Rights and Labor Supply in Peru." *Quarterly Journal of Economics* 122 (4): 1561–1602. doi:[10.1162/qjec.2007.122.4.1561](https://doi.org/10.1162/qjec.2007.122.4.1561).
- Galiani, Sebastian, and Ernesto Scharrodsky. 2010. "Property rights for the poor: Effects of land titling." *Journal of Public Economics* 94 (9-10). Elsevier B.V.: 700–729. doi:[10.1016/j.jpubeco.2010.06.002](https://doi.org/10.1016/j.jpubeco.2010.06.002).
- Galiani, Sebastian, Paul Gertler, and Ernesto Scharrodsky. 2005. "Water for Life: The Impact of the Privatization of Water Services on Child Mortality." *Journal of Political Economy* 113 (1): 83–120. doi:[10.1086/426041](https://doi.org/10.1086/426041).
- Glaeser, Edward, and Joseph Gyourko. 2005. "Urban Decline and Durable Housing." *Journal of Political Economy* 113 (2). The University of Chicago Press: 345–400.
- . 2018. "The Economic Implications of Housing Supply." *Journal of Economic Perspectives* 32 (1): 3–30. doi:[10.1257/jep.32.1.3](https://doi.org/10.1257/jep.32.1.3).
- Greenstone, Michael, and Rema Hanna. 2014. "Environmental Regulations, Air and Water Pollution, and Infant Mortality in India." *American Economic Review* 104 (10): 3038–72. doi:[10.1257/aer.104.10.3038](https://doi.org/10.1257/aer.104.10.3038).
- Hall, Jonathan D. 2018. "Pareto Improvements from Lexus Lanes: The effects of pricing a portion of the lanes on congested highways." *Journal of Public Economics* 158 (September 2017). Elsevier: 113–25. doi:[10.1016/j.jpubeco.2018.01.003](https://doi.org/10.1016/j.jpubeco.2018.01.003).
- Hart, Oliver, Andrei Shleifer, and Robert W. Vishny. 1997. "The Proper Scope of Government: Theory and an Application to Prisons." *Quarterly Journal of Economics* 112 (4): 1127–61. doi:[10.1162/003355300555448](https://doi.org/10.1162/003355300555448).
- Heckman, James J, and Alan B Krueger. 2004. *Inequality in America: What Role for Human Capital Policies?* MIT Press.
- Heckman, James J, and José Scheinkman. 1987. "The Importance of Bundling in a Gorman-Lancaster Model of Earnings." *Review of Economic Studies* 54 (2): 243–55. <http://www.jstor.org/stable/2297514>.
- Hendren, Nathaniel. 2017. "Efficient Welfare Weights." NBER Working Paper Series. Cambridge,

- MA: National Bureau of Economic Research. <http://www.nber.org/papers/w20351>.
- Hoekstra, Mark, Steven L. Puller, and Jeremy West. 2017. "Cash for Corollas: When Stimulus Reduces Spending." *American Economic Journal: Applied Economics* 9 (3): 1–35. doi:[10.1257/app.20150172](https://doi.org/10.1257/app.20150172).
- Hornbeck, Richard. 2010. "Barbed Wire: Property Rights and Agricultural Development." *Quarterly Journal of Economics* 125 (2): 767–810. doi:[10.1162/qjec.2010.125.2.767](https://doi.org/10.1162/qjec.2010.125.2.767).
- Ito, Koichiro, and James M Sallee. 2018. "The Economics of Attribute-Based Regulation: Theory and Evidence from Fuel-Economy Standards." *Review of Economics and Statistics* 100 (2): 319–36. doi:[10.3386/w20500](https://doi.org/10.3386/w20500).
- Jardim, Ekaterina, Mark Long, Robert Plotnick, Emma van Inwegen, Jacob Vigdor, and Hilary Wething. 2017. "Minimum Wage Increases, Wages, and Low-Wage Employment: Evidence from Seattle." NBER Working Paper Series. Cambridge, MA: National Bureau of Economic Research. doi:[10.3386/w23532](https://doi.org/10.3386/w23532).
- Kaboski, Joseph P, and Robert M Townsend. 2011. "A Structural Evaluation of a Large-Scale Quasi-Experimental Microfinance Initiative." *Econometrica* 79 (5): 1357–1406. doi:[10.3982/ECTA7079](https://doi.org/10.3982/ECTA7079).
- Kennan, John. 1995. "The Elusive Effects of Minimum Wages." *Journal of Economic Literature* 33 (4): 1950–65.
- Kreindler, Gabriel E. 2018. "The Welfare Effect of Road Congestion Pricing: Experimental Evidence and Equilibrium Implications." Department of Economics, Massachusetts Institute of Technology. <http://economics.mit.edu/files/13619>.
- Kremer, Michael, and Rachel Glennerster. 2011. "Improving Health in Developing Countries: Evidence from Randomized Evaluations." In *Handbook of Health Economics*, 2:201–315. Elsevier B.V. doi:[10.1016/B978-0-444-53592-4.00004-9](https://doi.org/10.1016/B978-0-444-53592-4.00004-9).
- Lochner, Lance, and Alexander Monge-Naranjo. 2012. "Credit Constraints in Education." *Annual Review of Economics* 4 (1): 225–56. doi:[10.1146/annurev-economics-080511-110920](https://doi.org/10.1146/annurev-economics-080511-110920).
- MaCurdy, Thomas. 2015. "How Effective Is the Minimum Wage at Supporting the Poor?" *Journal of Political Economy* 123 (2): 497–545. doi:[10.1086/679626](https://doi.org/10.1086/679626).
- McCloskey, Donald. 1985. *The Applied Theory of Price*. New York: Macmillan.
- Meager, Rachael. 2019. "Understanding the Impact of Microcredit Expansions: A Bayesian Hierarchical Analysis of Seven Randomised Experiments." *American Economic Journal: Applied Economics (Forthcoming)*. doi:[10.2139/ssrn.2620834](https://doi.org/10.2139/ssrn.2620834).
- Meng, Xin, Nancy Qian, and Pierre Yared. 2015. "The Institutional Causes of China's Great Famine, 1959-1961." *Review of Economic Studies* 82 (4): 1568–1611. doi:[10.1093/restud/rdv016](https://doi.org/10.1093/restud/rdv016).
- Morten, Melanie. 2019. "Temporary Migration and Endogenous Risk-Sharing in Village India." *Journal of Political Economy (Forthcoming)*.
- Mulligan, Casey B, and Kevin K Tsui. 2016. "The Upside-Down Economics of Regulated and Otherwise Rigid Prices." National Bureau of Economic Research.
- Muralidharan, Karthik, Jishnu Das, Alaka Holla, and Aakash Mohpal. 2017. "The fiscal cost of weak governance: Evidence from teacher absence in India." *Journal of Public Economics* 145. The

Authors.: 116–35. doi:[10.1016/j.jpubeco.2016.11.005](https://doi.org/10.1016/j.jpubeco.2016.11.005).

Mussa, Michael, and Sherwin Rosen. 1978. "Monopoly and Product Quality." *Journal of Economic Theory* 18 (2): 301–17. doi:[10.1016/0022-0531\(78\)90085-6](https://doi.org/10.1016/0022-0531(78)90085-6).

Neal, Derek, and Sherwin Rosen. 2000. "Theories of the Distribution of Earnings." In *Handbook of Income Distribution*, 379–427. <http://linkinghub.elsevier.com/retrieve/pii/S157400560080010X>.

Rosen, Sherwin. 1974. "Hedonic Prices and Implicit Markets: Product Differentiation in Pure Competition." *Journal of Political Economy* 82 (1): 34–55. doi:[10.1086/260169](https://doi.org/10.1086/260169).

———. 1978. "Substitution and Division of Labour." *Economica* 45 (179): 235–50. <http://www.jstor.org/stable/2553070>.

———. 1981. "The Economics of Superstars." *American Economic Review* 71 (5). The American Economic Association: 845–58.

———. 1983. "A Note on Aggregation of Skills and Labor Quality." *Journal of Human Resources* 18 (3): 425–31.

———. 1986. "The Theory of Equalizing Differences." In *Handbook of Labor Economics*, 641–92. doi:[10.1016/S1573-4463\(86\)01015-5](https://doi.org/10.1016/S1573-4463(86)01015-5).

———. 2002. "Markets and Diversity." *American Economic Review* 92 (1): 1–15. doi:[10.1257/000282802760015577](https://doi.org/10.1257/000282802760015577).

Shleifer, Andrei. 1998. "State versus Private Ownership." *Journal of Economic Perspectives* 12 (4): 133–50. doi:[10.1257/jep.12.4.133](https://doi.org/10.1257/jep.12.4.133).

Silberg, Eugene, and Wing Suen. 2000. *The Structure of Economics: A Mathematical Analysis*. 3rd ed. Singapore: McGraw-Hill.

Stigler, George J. 1987. *The Theory of Price*. 4th ed. New York: Macmillan.

Stokey, Nancy L. 1981. "Rational Expectations and Durable Goods Pricing." *Bell Journal of Economics* 12 (1): 112–28.

Townsend, Robert M. 1994. "Risk and Insurance in Village India." *Econometrica* 62 (3). JSTOR: 539–91. <http://www.jstor.org/stable/10.2307/2951659>.

Weitzman, Martin L. 1977. "Is the Price System or Rationing More Effective in Getting a Commodity to Those Who Need it Most?" *Bell Journal of Economics* 8 (2): 517–24. <http://www.jstor.org/stable/3003300>.

Willis, Robert J, and Sherwin Rosen. 1979. "Education and Self-Selection." *Journal of Political Economy* 87 (5). doi:[10.1086/260821](https://doi.org/10.1086/260821).