

# EKN 812: Microeconomics

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Class Hours: Monday 16.00 - 19.00

Class Room: Tukkieurf 1-37

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## 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. Although we will cover some of these things in the first week, you may have to revise them on your own.

## 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 (2007a)<sup>1</sup>
- Deaton and Muellbauer (1980)
- Friedman (1962)
- McCloskey (1985)
- Silberberg and Suen (2000)
- Stigler (1987)

Some of these are hard to come by, but I have asked the library to put all of them on reserve; at the time of writing, Stigler (1987), Deaton and Muellbauer (1980) and Silberberg and Suen (2000) are available. McCloskey (1985) is available for (free) download from her website, and Deaton and Muellbauer (1980) is still relatively easy to find. Becker (2007a) and Friedman (1962) are now available in Kindle format from Amazon, as is Deaton and Muellbauer (1980).

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

There will be 6 problem sets, a take-home midterm, and a final exam (in class). Your final grade will be a weighted average of your performance on each of these, with the weights being either:

- 20% problem sets + 20% midterm + 60% final, or
- 25% problem sets + 25% midterm + 50% final,

whichever is in your favor.

## Class Schedule

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

#### *Required Readings*

- Becker (1993)

#### *Suggested Readings: Elements of Consumer Theory*

- Becker (1962)
- Becker (2007a), Ch. 2
- Deaton and Muellbauer (1980), Ch. 1-2; 4
- Silberberg and Suen (2000), Ch. 10
- Friedman (1962), Ch. 2
- Varian (1992), Ch. 7-9

#### *Suggested Readings: The Economic Approach to Human Behavior*

- Friedman (1953)
- Stigler and Becker (1977)

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<sup>1</sup>Note: this book was written and first published in the mid-1960s. As such, it uses outdated and possibly offensive terms to refer to black Americans in its discussion of certain labor market issues. You are welcome to use any of the other texts instead.

- Rosen (2002)

#### *Applications*

- Cunha, De Giorgi, and Jayachandran (2018)

### **Week 02, 02/11 - 02/15: Welfare Measurement, Revealed Preference and Separability**

#### *Suggested Readings*

- Becker (2007a), Ch. 3
- Deaton and Muellbauer (1980), Ch. 4-7
- Silberberg and Suen (2000), Ch. 11; 19
- Stigler (1987), Ch. 4

#### *Additional Readings*

- Friedman (1962), Ch. 2
- Varian (1992), Ch. 10
- Hendren (2017)

#### *Applications*

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

### **Week 03, 02/18 - 02/22: Intertemporal Choice and Durable Goods**

#### *Suggested Readings*

- Becker (2007a), Ch. 3; 10
- Silberberg and Suen (2000), Ch. 12
- Deaton and Muellbauer (1980), Ch. 12 - 13

### **Week 04, 02/25 - 03/01: Choice Under Uncertainty**

#### *Suggested Readings*

- Becker (2007a), Ch. 4
- Deaton and Muellbauer (1980), Ch. 14
- Silberberg and Suen (2000), Ch. 13

#### *Additional Readings*

- Friedman (1962), Ch. 4
- Varian (1992), Ch. 11
- Stigler (1987), Ch. 14

#### *Applications*

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

## **Week 05, 03/04 - 03/08: Supply in Product Markets**

### *Suggested Readings*

- Becker (2007a), Ch. 5
- Coase (1960)
- Silberberg and Suen (2000), Ch. 8-9

## **Week 06, 03/11 - 03/15: Supply in Product Markets (continued)**

### *Suggested Readings*

- Friedman (1962), Ch. 5-6
- Stigler (1987), Ch. 7-10
- Rosen (1981)

### *Applications*

- Shleifer (1998)
- Boycko, Shleifer, and Vishny (1996)
- Kreindler (2018)
- Hall (2018)
- Murphy, Shleifer, and Vishny (1989)
- Lazear (2001)

## **Week 07, 03/18 - 03/22: Equilibrium in Product Markets**

### *Suggested Readings*

- Becker (2007a), Ch. 6
- Rosen (1974)

### *Additional Readings*

- Stigler (1987), Ch. 11-13
- Varian (1992), Ch. 13-14
- Weyl and Fabinger (2013)
- Deacon and Sonstelie (1989)
- Weitzman (1977)
- Mulligan and Tsui (2016)

## **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: Equilibrium in Product Markets (continued)**

### *Applications*

- Demsetz (1968)

- Becker, Murphy, and Grossman (2006)
- Glaeser and Luttmer (2003)
- Diamond, McQuade, and Qian (2018)
- Prendergast (2017)
- Neal (2018), Ch. 3-5

## **Week 10, 04/08 - 04/12: Production and Costs**

### *Suggested Readings*

- Becker (2007a), Ch. 7
- Silberberg and Suen (2000), Ch. 8-9

### *Additional Readings*

- Varian (1992), Ch. 1-6; 18
- Stigler (1976)

## **Week 11, 04/15 - 04/19: Production and Costs (continued)**

### *Applications*

- Syverson (2011)
- Bloom et al. (2013); Bloom and Reenen (2010)
- Lucas (1978); Rosen (1981)
- Neal (2018), Ch. 1
- Hart, Shleifer, and Vishny (1997)
- Muralidharan et al. (2017); Chaudhury et al. (2006)
- Galiani, Gertler, and Schargrodsky (2005)

## **Week 12, 04/22 - 04/26: Factor Demand**

### *Suggested Readings*

- Becker (2007a), Ch. 8
- Silberberg and Suen (2000), Ch. 8-9
- Ewerhart (2003)
- Becker (1965); Michael and Becker (1973)
- Heckman (2015); Chiappori and Lewbel (2015)

### *Additional Readings*

- Friedman (1962), Ch. 7-10
- Stigler (1987), Ch. 15; 17
- Varian (1992), Ch. 4-6
- Rosen (1978)

**Week 13, 04/29 - 05/03: Factor Demand (continued)***Applications*

- Neal (2018), Ch. 2; Neal (2011)
- Autor, Dorn, and Hanson (2013)
- Wang et al. (2018)
- Acemoglu and Autor (2011)
- Atalay, Hortaçsu, and Syverson (2014)
- Hsieh and Klenow (2009)

**Week 14, 05/06 - 05/10: Human Capital***Suggested Readings*

- Becker (1994), Ch. 2
- Becker (2007a), Ch. 9
- Neal and Rosen (2000); Rosen (1985)

*Additional Readings*

- Friedman (1962), Ch. 11-15
- Stigler (1987), Ch. 17-18
- Rosen (1983)
- Becker (2007b)

**Week 15, 05/13 - 05/17: Human Capital (continued)***Applications*

- Murphy, Scott-Clayton, and Wyness (2018)
- Lazear (2009); Topel (1991)
- Greenstone and Hanna (2014)
- Murphy and Topel (2006)
- Rosenzweig (2010)
- Lagakos et al. (2018b); Lagakos et al. (2018a)

**Week 16, 05/20 - 05/24: Physical Capital (Including Improvements to Land)***Suggested Readings*

- Becker (2007a), Ch. 3; 10
- Silberberg and Suen (2000), Ch. 12
- Friedman (1962), Ch. 17
- Stigler (1987), Ch. 19

*Applications*

- Deaton (1997), Ch. 6
- Banerjee, Karlan, and Zinman (2015); Banerjee, Karlan, and Zinman (2015)
- Kaboski and Townsend (2011); Meager (2019)

- Glaeser and Gyourko (2018); Topel and Rosen (1988)
- Caballero (1999)
- Rosen, Murphy, and Scheinkman (1994)
- Rosen (1999)

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