

International Economics

Academic year 2024-2025

Microeconomics II

EI043 - Spring - 6 ECTS

Tuesday 10h15 - 12h00

Course Description

This course follows Microeconomics I and covers basic models in microeconomic theory. It starts off with a formal analysis of models of asymmetric information, ranging from settings of adverse selection, signaling and screening to moral hazard. An application to insurance markets will be presented.

The course will also cover Behavioral Economics, studying among others choice under uncertainty, endowment effects and time inconsistencies.

Last but not least, students will also be introduced to models of collective decision-making, covering preference aggregation, voting and political competition, as well as lobbying and frameworks investigating contests and conflicts.

While the focus lies on transmitting solid fundamentals on seminal theoretical models, we will also punctually confront key predictions with cutting-edge empirical results, and discuss important policy implications.

> PROFESSOR

[Dominic Rohner](#)

[Office hours](#)

> ASSISTANT

Guido Stefano Alessandro
Ardizzone

[Office hours](#)

IMPORTANT

Regular attendance is compulsory, and any absence must be promptly communicated to the teacher. In the event of missing more than two sessions, students are expected to provide well-documented justifications for unforeseeable circumstances (e.g. illness, accident, death of a relative), directly to the Direction of Studies. Failure to justify absences beyond two sessions will result in the assignment of code N.

Students are also reminded of the following legal rules:

The teacher owns the **copyright** on the material they created for this course. As such, any reproduction or distribution of this document, in whole or in part, as well as of any other material created by the teacher for the course, is prohibited unless permission is granted by the author.

Recording (as video or audio) a course without the consent of the teacher and other participants is strictly forbidden.

Syllabus

Grading

There will be both a mid-term and a final exam. They are both written and closed book, meaning no documents, laptops, smartphones, etc., are allowed. Please bring with you a non-programmable calculator. The better grade from the mid-term and final exam will count 60% and the lower of the two grades will count 40% of the final grade of the course.

Course outline (indicative)

PART I – INFORMATION, KNOWLEDGE AND UNCERTAINTY

Section I.1: Adverse Selection

- Adverse Selection
- Signaling
- Screening

Section I.2: Moral Hazard

- Moral Hazard

Section I.3: Application: Insurance

- Risk Aversion and Insurance

PART II – BEHAVIORAL ECONOMICS

Section II.1: Big Picture

- Overview

Section II.2: Choice Under Uncertainty

- Expected Utility Theory
- Behavioral Findings
- Prospect Theory

Section II.3: Buyers, Sellers and Markets

- Endowment Effect
- Deviations from Rationality

Section II.4: Time Inconsistent Preferences

- Time Inconsistent Preferences
- Quasi-Hyperbolic Discounting

PART III – COLLECTIVE DECISION MAKING

Section III.1: Aggregation of Preferences

- Aggregation of Preferences
- Condorcet Paradox

Section III.2: Electoral Competition

- Downsian Electoral Competition
- Probabilistic Voting

Section III.3: Impact of Lobbying and Other Factors

- Lobbying
- Partisan Politics
- Legislative Bargaining
- Manipulation of Preferences

Section III.4: Conflict

- War as Bargaining Failure
- War as Rent-Seeking
- General Equilibrium Model of Conflict

References:

Below are listed some useful references for the course. They are complementary readings that may be of interest to you, and may be helpful for reference (for example if you write a Master thesis on a related topic), but you are not required or expected to read them.

PART I – INFORMATION, KNOWLEDGE AND UNCERTAINTY

Akerlof, George A. "The Market for" Lemons": Quality Uncertainty and the Market Mechanism." *The Quarterly Journal of Economics* 84, no. 3 (1970): 488-500.

Jehle, Geoffrey, and Philip Reny. *Advanced Microeconomic Theory*. Pearson Education, 2011.

Macho-Stadler, Inés, and J. David Pérez-Castrillo. *An introduction to the economics of information: incentives and contracts*. Oxford University Press, 2001.

Mas-Colell, Andreu, Michael Whinston, and Jerry R. Green. *Microeconomic Theory*. Oxford University Press, 1995.

Mirrlees, James A. "An exploration in the theory of optimum income taxation." *The Review of Economic Studies* 38, no. 2 (1971): 175-208.

Spence, Michael. "Job Market Signaling." *The Quarterly Journal of Economics* 87, no. 3 (1973): 355-374.

PART II – BEHAVIORAL ECONOMICS

Angner, Erik. *A Course in Behavioral Economics*. Palgrave MacMillan, 2012.

DellaVigna, Stefano. "Psychology and economics: Evidence from the field." *Journal of Economic Literature* 47, no. 2 (2009): 315-372.

Dhami, Sanjit. *The Foundations of Behavioral Economic Analysis*. Oxford University Press, 2016.

Kahneman, Daniel, and Amos Tversky. "Prospect Theory: An Analysis of Decision under Risk." *Econometrica* 47, no. 2 (1979): 263-292.

Knetsch, Jack L. "The endowment effect and evidence of nonreversible indifference curves." *The American Economic Review* 79, no. 5 (1989): 1277-1284.

Machina, Mark. "Expected Utility Hypothesis" in Steven N. Durlauf and Lawrence E. Blume (eds.), *The New Palgrave Dictionary of Economics*, 2008.

Starmer, Chris. "Developments in non-expected utility theory: The hunt for a descriptive theory of choice under risk." *Journal of Economic Literature* 38, no. 2 (2000): 332-382.

Thaler, Richard. "Toward a positive theory of consumer choice." *Journal of Economic Behavior & Organization* 1, no. 1 (1980): 39-60.

Tversky, Amos, and Daniel Kahneman. "Advances in prospect theory: Cumulative representation of uncertainty." *Journal of Risk and Uncertainty* 5 (1992): 297-323.

Wilkinson, Nick and Matthias Klaes. *An Introduction to Behavioral Economics*. Palgrave MacMillan, 2012.

PART III – COLLECTIVE DECISION MAKING

Besley, Timothy, and Stephen Coate. "An economic model of representative democracy." *The Quarterly Journal of Economics* 112, no. 1 (1997): 85-114.

Dal Bó, Ernesto, and Pedro Dal Bó. "Workers, warriors, and criminals: social conflict in general equilibrium." *Journal of the European Economic Association* 9, no. 4 (2011): 646-677.

Fearon, James D. "Rationalist explanations for war." *International Organization* 49, no. 3 (1995): 379-414.

Hirshleifer, Jack. *The dark side of the force: Economic foundations of conflict theory*. Cambridge University Press, 2001.

Jackson, Matthew O., and Massimo Morelli. "Political bias and war." *American Economic Review* 97, no. 4 (2007): 1353-1373.

Lindbeck, Assar, and Jörgen W. Weibull. "Balanced-budget redistribution as the outcome of political competition." *Public Choice* 52 (1987): 273-297.

Mueller, Dennis C. *Public Choice III*. Cambridge University Press, 2003.

Persson, Torsten, and Guido Tabellini. *Political Economics: Explaining Economic Policy*. MIT Press, 2002.

Rohner, Dominic. "Mediation, military, and money: The promises and pitfalls of outside interventions to end armed conflicts." *Journal of Economic Literature* 62, no. 1 (2024): 155-195.

Rohner, Dominic. *The Peace Formula*. Cambridge University Press, 2024.