Econ 7030: Price Theory II (Markets and market failure) Spring 2024

Instructor: Simon Anderson

Web page: http://economics.virginia.edu/people/sa9w

Course home page: on Canvas

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Lectures: T, R 11:00-12:15 in Monroe 114 and T, R 14:00-15:15 in Monroe 114

Discussion: F 10:00-10:50 in New Cabell 389 and F 11:00-11:50 in New Cabell 232

Office Hours: by appointment; Wed 13:30-14:30

Teaching Assistant: *Yang Yu, yy5bm*

Office Hours: Thursday 4:00pm – 5:30pm in Monroe Basement

**Grading:**

There will be a first test, worth 25% of the grade, and a second test worth 50%.

There will also be weekly assignments, worth the remaining 25%. You are encouraged to work together on them, but the maximum group size is FOUR people. You must write out your answers yourself and list the other people you worked with on the first page of the assignment, and pledge: please see the Honor Policy Statement on Collab. You are NOT to use outside material (such as previous students’ notes, online guides, the answer book etc.) for the answers.

The exercises are intended to complement the lecture material. Please keep each answer on a separate page with your name. If scanning, please upload clearly, legibly and the right way up!

**Schedule:**

First Class: R Jan 18th

Last Class: R Feb 29th

First test: T Feb 13rd (tentative)

Second test: T Mar 12nd or R Mar 15 (time TBD)

Assignment 1 officially opens Jan 18, and is due Jan 26 at 10 a.m. in Yang’s session

Subsequent assignments open Jan 25, Feb 1, Feb 15, and Feb 22 and are due 10 a.m. 8 days later.

**Prerequisites:** Econ 5090, 7010.

**Texts:**

The main text is Mas-Colell, Whinston, and Green, *Microeconomic Theory*.

References are also given for Varian, *Microeconomic Analysis*, although the coverage of General Equilibrium is too light.

You may also wish to consult (on reserve in Clemons):

General: David M. Kreps, *A Course in Microeconomic Theory*.

Public Finance: Anthony B. Atkinson and Joseph E. Stiglitz, *Lectures on Public Economics*.

Market Power: Jean Tirole, *The Theory of Industrial Organization*.

General Equilibrium: Gerard Debreu, *Theory of Value*.

Bryan Ellickson, *Competitive Equilibrium*.

Werner Hildenbrand and Alan P. Kirman, *Equilibrium Analysis.*

Trade: Jagdish Bhagwati and T. N. Srinivasan, *Lectures on International Trade.* MIT Press, 1983.

Other references will be given if and as desired.

**Course Objectives:**

The course constitutes the second part of the graduate sequence in Microeconomics. The emphasis here is on market equilibrium and market failure; in particular, the optimality properties of a competitive equilibrium and the circumstances under which a market equilibrium fails to be optimal. We start with a partial equilibrium analysis to illustrate the market mechanism and the basic welfare theorems. We then consider some prime reasons for market failure: externalities and market power. The equilibrium analysis is then extended to consider inter-related markets, or general equilibrium analysis. We prove the fundamental welfare theorems in this setting and apply the analysis to international trade. If time permits, we then return to consider another source of market failure, asymmetric information. 8010 looks at Game Theory in more detail.

**List of Topics:**

Introduction (Market Equilibrium and Market Failure)

Preliminary definitions and notation (MWG)

The market mechanism and the Fundamental Welfare Theorems in a partial equilibrium setting.

Review 5090 and 7010.

MWG 10 Competitive Markets (partial equilibrium framework)

V 10 (Consumer Surplus), 13 (Competitive markets)

Externalities and Public Goods

MGW 11

V 24 (Externalities), 23 (Public goods)

Market Power

MGW 12

V 14 (Monopoly), 16 (Oligopoly)

\* Another main source of market failure - information asymmetries - is postponed till 8010

General Equilibrium, Introduction

MWG 15 (includes International Trade Theorems)

V 17 (Exchange), 18 (Production)

The Fundamental Theorems of Welfare Economics

MWG 16

Equilibrium Existence and Uniqueness

MWG 17

V 21 (Equilibrium Analysis)

The Core and Equilibria

MWG 18; V 21

**Econ 7030 Honor Policy Statement**

I trust every student in this course to fully comply with all of the provisions of the UVa Honor System. By enrolling in this course, you have agreed to abide by and uphold the Honor System of the University of Virginia.

Homework assignments: If you work with a study group, the group MUST comprise NO MORE than 4 members. There is to be no communication across groups. You are NOT to use outside material (such as answer keys, previous students’ assignment materials, online guides, the answer book etc.) for the answers. You may consult only your group members, the TA, and the instructor regarding answers to assignment questions. Before submission, you must write on the first page of each assignment the names of the other members of your group, write "Pledged", and sign your name beneath it. Your signature affirms that you have followed the regulations described in this paragraph. Once the class has turned in an assignment, you are free to discuss the assignment across groups.

Exams: On every exam, please write "Pledged", and sign your name. In addition to pledging that you have neither received nor given aid while taking your exam, your signature also affirms that you have not accessed anyone else’s notes, study outlines, problem sets, old exams, answer keys, or the textbook while taking an exam, and that you have not obtained any answers from another student's exam.

Plagiarism is an Honor offense. The Honor Committee provides a very straightforward discussion, "Fraud and the Honor System", at: www.virginia.edu/honor/proc/fraud.html

I expect every student in this course to fully comply with all of the provisions of the UVA honor system. If, in my judgment, it is beyond a reasonable doubt that a student has committed an honor violation with regard to a given exam, that student will receive an immediate grade of 'F' for that exam, regardless of any subsequent action taken by the Honor Committee.

In addition:

• When given permission to collaborate with others, do not copy answers from another student.

• Always cite any resources or individuals you consult to complete an assignment.

• All suspected violations will be forwarded to the Honor Committee and at my discretion, you may receive an immediate zero on that assignment regardless of any action taken by the Honor Committee.

Please let me know if you have any questions regarding the course honor policy.

If you believe you may have committed an Honor Offense, you may wish to file a Conscientious Retraction (“CR”) by calling the Honor Offices at (434) 924-7602. For your retraction to be considered valid, it must, among other things, be filed with the Honor Committee before you are aware that the Act in question has come under suspicion by anyone. More information can be found at www.virginia.edu/honor.