

# Econ 50 in Context

Econ 50 | Lecture 19 | March 10, 2016

## Where We've Been

- Consumer Theory
- Producer Theory
- Market Structures:  
Competition vs. Market Power

## Where We're Going

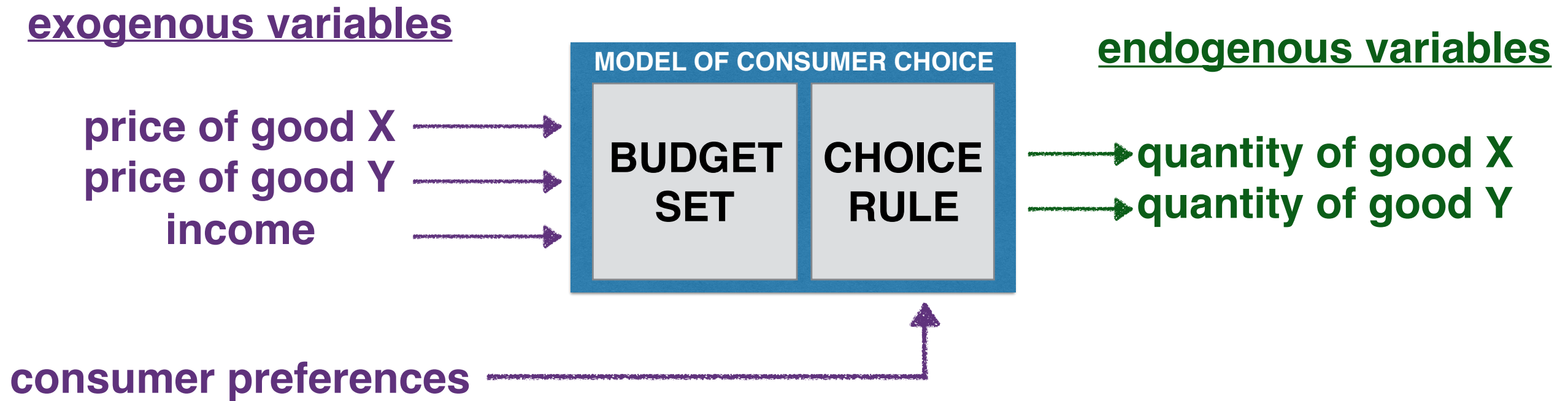
- Strategic Interaction
- Imperfect Information
- General Equilibrium

One last topic: Economic Rent

# Part I

Where we've been

# Consumer Theory



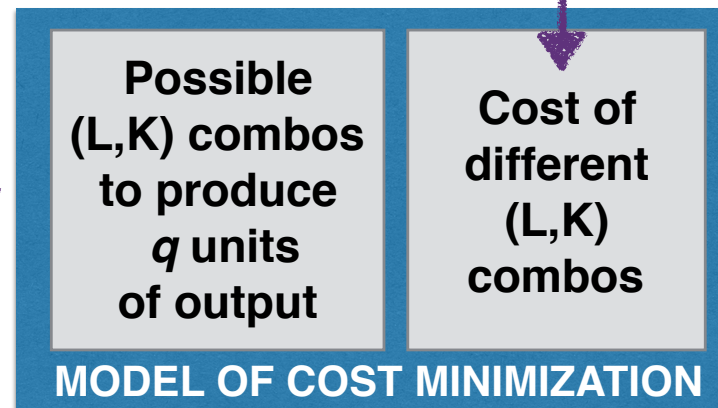
# Producer Theory

## exogenous variables

## endogenous variables

labor and capital prices ( $w, r$ )

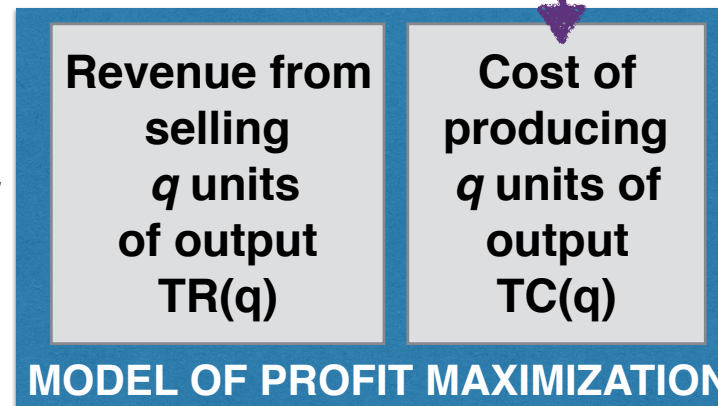
production function,  $F(L, K)$



labor used for  $q$   
capital used for  $q$

cost function,  $TC(q)$

demand / output prices



optimal quantity,  $q^*$

labor used for  $q^*$   
capital used for  $q^*$

# Consumer and Producer Theory

Individual **optimization** problems

Lots of variables: some **exogenous**, some **endogenous**

Generally speaking, make decisions about **quantity**

**Marginal analysis**: optimal quantity sets  $MB = MC$

**Comparative statics**: how do endogenous (choice) variables respond to changes in exogenous variables?

# Market Structures

Analyze **interactions** between producers and consumers

Tension between **price-taking** and **price-setting** behavior:

**Perfect Competition:** price takers

**Monopoly/Monopsony:** extreme examples of price setters



## Part II

Where we're going

# Assumptions We've Made

No models of interaction between buyers and sellers

Perfect information about prices, quality, etc.

Markets exist in isolation; rest of the world taken as “exogenous”

# Strategic Interaction

- **Game theory:** “**players**” take “**actions**” and receive “**payoffs**”
- Each player’s actions **affects** the payoffs of the **other players**
- **Rules of the game** influence player strategies
- Games may be “**one-shot,**” **repeated,** or **dynamic**

# Risk and Uncertainty

- Model risk/uncertainty as “**multiple states of the world**”
- May take action to alter **utility** in each state of the world (insurance)
- May take action to affect **probability** of different states of the world
- **Adverse selection**: hidden information
- **Moral hazard**: hidden action

# General Equilibrium

- Allocation: **Edgeworth Box**
- Production: **General Competitive Equilibrium**