Overview: This course is the first in a sequence of two advanced microeconomic theory courses offered in the graduate economics curriculum at the University of Houston. The course will cover in-depth the modern microeconomic theory of economic choices made by individual consumers and firms. We will examine non-strategic markets such as competitive markets and monopoly. We will also take a brief look at behavioral economics, which can be viewed as complementary to our neoclassical approach. Topics we will cover include special classes of preferences and production functions, choice under uncertainty, individual measures of welfare, market-level measures of welfare. The course also introduces you to some mathematical methods used in microeconomic theory such as optimization, constrained optimization (including the Kuhn-Tucker Theorem), the envelope theorem, and comparative statics. The second micro course (Econ 7342) will develop models of asymmetric information, strategic behavior and interactions among agents and groups of agents.

Logistics: Class time consists of two parts, lectures and labs. The lectures are held MW 1-2:30pm in room 116M and taught by me. The lab is held on Fridays from 1-2:30pm in the economics conference room, room 212M, and taught by the teaching assistant (TA), a second year economics graduate student. Typically the (TA) will go over homework in the Friday labs, and students may be asked to present solutions too. Occasionally I may use the period for lectures, as needed. I expect you to attend all lectures and labs and to be an active participant in each. Homework and other course materials will be posted on our class Blackboard Vista website.

Required Textbooks:


Other Useful Textbooks:

Micro Theory:


Math related:


Course Evaluation: 30% Midterm (Wed. October 13, 2010 in class)

50% Final Exam (Friday December 10, 2010 in our regular classroom 116M, 2-5pm)

20% Homework sets

The exams will consist of problems and will be closed-book, closed-note and given in-class. About ten homework sets will be assigned during the semester and each will be assigned a specific due date. Completing the homework is an important part of the course, and will help you better understand the course material.

Course Policies: All exams and homeworks are mandatory. Unapproved absence from any exam counts as a zero. No late assignments accepted. Any late homework receives a score of zero. Original hard copies (but no xeroxes) of homeworks are required; no electronic submissions will be accepted. You may form homework study-groups (in fact I encourage you to do so), but each student must turn in her/his own homework sets. Each homework set turned in must be unique and original. You are expected to do your own work on the exams. No makeup exams. Any absence from an exam for medical reasons must be
documented by your physician. Any other absence from an exam must be approved by me in advance in writing. All exams and homeworks are covered by the Honesty code of the University of Houston (see Student Handbook available at http://www.uh.edu/dos/publications/handbook.php).

Course Preparation: Students should have a working knowledge of multivariate calculus, matrix algebra, formal logic and probability; also be competent in intermediate microeconomics with calculus.

Learning Outcomes:

--Students will learn through lectures, labs, homework, exams and readings to master microeconomic theory to a level that enables students to critically analyze research articles published in leading applied economic theory journals.

--Students will learn the methods of microeconomic theory that, in conjunction with other core classes, will provide the foundation for independent research in many fields of economics.

--Students will develop their mathematical and analytical skills to the level expected in the second graduate microeconomics, Econ 7342, and master microeconomic theory to a level that enables them to pass the Ph.D. qualifying exams in microeconomic theory.

Course Outline (additional readings may be added)

<table>
<thead>
<tr>
<th>Topic</th>
<th>Readings</th>
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<tbody>
<tr>
<td>1. Introduction and Review of Competitive and Monopoly Markets</td>
<td>JR &amp; MWG—mathematical appendices; SS ch. 1</td>
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<td>NS chs. 12, 14</td>
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<td>2. Producer Theory</td>
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<td>a. Production Technology</td>
<td>JR 3.1-3.2</td>
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<td>MWG 5.a-5.b</td>
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<td>V ch.1</td>
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<td>b. Profit Maximization, Profit Functions and Supply</td>
<td>JR 3.5</td>
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<td>MWG 5.c, 5.e</td>
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<td></td>
<td>V chs. 2 &amp; 3</td>
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<td>c. Cost Minimization and Conditional Factor Demands</td>
<td>JR 3.3</td>
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<td>MWG 5.c-5.e</td>
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<td>V chs. 4 &amp; 5</td>
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<tr>
<td>d. Duality—Technology and Costs</td>
<td>JR 3.4</td>
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<tr>
<td></td>
<td>MWG 5.c-5.d</td>
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<td>V ch.6</td>
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Course Outline, contd.

3. Consumer Theory
   a. Preferences and Utility
      JR 1.1-1.2
      MWG ch. 1, 3.a-3.c
   b. Consumer Choice and Marshallian Demand
      JR 1.3
      MWG ch. 2, 3.d
   c. Expenditure Functions and Hicksian Demand
      JR 1.4-1.5
      MWG ch. 3.e
   d. Duality—Utility and Expenditure, Slutsky Equation, Integrability, Inverse Demand
      JR 1.5, 2.1-2.2
      MWG 3.f-3.h

4. Consumer Demand Topics
   a. Welfare Evaluation of Economic Changes to Consumers—Consumer surplus, equivalent variation and compensating variation
      JR 4.3
      MWG 3.i
   b. Revealed Preference-Weak and Strong Axioms
      JR 2.3
      MWG 2.f, 3.j
   a. Aggregation
      MWG ch. 4

5. Consumer Choice under Uncertainty
   JR 2.4
   MWG ch. 6
   Machina (1987)

6. Partial Equilibrium, Efficiency and Welfare
   Comparing Competitive and Monopoly Outcomes
   JR ch.4
   MWG ch. 10, 12.a-12.b

7. Some Challenges to Neoclassical Micro Theory
   A quick look at Behavioral Economics
   DellaVigna (2009)

Articles (more may be assigned during the semester):
