

Professor David F. Layton
Autumn 2010
Evans School of Public Affairs
University of Washington

PPM 506
Advanced Microeconomics for Policy Analysis

Course Description:

This course provides a doctoral-level introduction to microeconomic theory and the tools it provides to inform public policy analysis. The course focuses on: constrained and unconstrained optimization, consumer choice theory, firm profit maximization, information and uncertainty, externalities, and public goods.

Prerequisites: Multivariate calculus and microeconomic theory at the intermediate level.

Class meets on MW from 1:30 to 2:50 in SIG 230

Office: PAR 330
Office Hours: Wednesdays from 3-3:50, and by appointment
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Course Texts:

Microeconomic Theory: Basic Principles and Extensions, 10th Edition. Walter Nicholson and Christopher Snyder, South-Western, 2008.

Advanced Economic Theory, 2nd Edition. Geoffrey A. Jehle and Philip J. Reny, Addison Wesley, 2001.

Additional Helpful Texts:

The Structure of Economics: A Mathematical Analysis. Eugene Silberberg and Wing Suen (this may be available in the UW bookstore for the course Economics 500: Microeconomic Analysis 1, or can be ordered on-line).

Microeconomic Analysis, Third Edition. Hal R. Varian, W.W. Norton, 1992.

Intermediate Microeconomics: A Modern Approach, Seventh Edition. Hal R. Varian, W.W. Norton, 2005.

A Course in Microeconomic Theory, David M. Kreps, Princeton University Press, 1990.

Microeconomic Theory, Andreu Mas-Colell, Michael D. Whinston, and Jerry R. Green, Oxford University Press, 1995 (this may be available in the UW bookstore for the course Economics 500: Microeconomic Analysis 1).

Course Grading: Your grade will be based on an in class midterm (40%, on November 1st) and a final exam (60%) on Monday, December 13 from 2:30 to 4:30. In addition there will be weekly un-graded problem sets.

Course Outline: Below is a tentative course outline and reading schedule. We will go quicker if possible, and slow down if necessary in some places. I will make sure to tell you each week what you should be reading for the next week.

Texts are labeled as N&S for Nicholson and Snyder and J&R for Jehle and Reny. Additional readings may be provided during the quarter

I. Introduction, Math Review, and Optimization (2 -3 lectures)

Economic Models

Maximization of functions of one and then several variables

Constrained Maximization

Envelope theorem

N&S chapters 1 and 2

J&R chapters A2 and A1

II. Consumer Theory (6 lectures)

Preferences and Utility

Utility Maximization

Indirect Utility and Expenditure

Income and Substitution Effects

N&S chapters 3, 4, 5, 6

J&R chapters 1 and 2

Midterm on November 1st

III. Theory of the Firm (2-3 lectures)

Production Functions

Cost Functions

Profit Maximization

N&S chapter 9, 10, 11
J&R chapter 3

IV. Extensions to Decision-Making Models (2-3 lectures)

Decision making under risk and uncertainty
How individuals and society discount the future

N&S chapters 7 and 17
J&R chapter 2.4

V. General Equilibrium, Welfare Economics and Market Failure (3-4 lectures)

General Equilibrium
Principal Agent Model
Adverse Selection
Externalities
Public Goods

N&S chapters 13, 18, 19
J&R chapters 5 and 8

Final exam on Monday, December 13 from 2:30 to 4:30