

ECON 4070-001 TOPICS IN MICROECONOMICS

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Class time and location: TTH 9.30am to 10.45am, ECON 117

Course Description

The course uses analytical techniques to examine optimal decision making with certainty, uncertainty and imperfect information. Part I of the course reviews the fundamental economics of consumer choice with certainty. Part II examines risk and information in the context of utility maximization. Part III investigates inefficiencies from imperfect information, such as adverse selection and moral hazard.

The course will ask advanced questions about the choices of firms, consumers and policy makers, and answers those questions through observation, theoretical modeling, and experiments. Theoretical models will be used to obtain intuitive insight on economic behavior and to conduct theoretical “experiments.” In these experiments, the economic model will be shocked with an economic or policy “treatment” and the pre- and post-treatment equilibria results will be compared.

Learning objectives and outcomes

Use the economic tools from *ECON 3070 Intermediate Microeconomic Theory* to understand how agents make optimal decisions when facing uncertainty and imperfect information.

Understand risk and imperfect information in finance and insurance markets.

Be comfortable using algebra, calculus, diagrams and excel spreadsheets to model different kinds of interactions between sellers, buyers, and policymakers.

Illustrate the causes and consequences of market failure in imperfectly competitive markets and suggest suitable public policy solutions.

Use critical thinking, oral and written communication skills with classroom interactions, office hours, homework assignments, and examinations.

Demonstrate an understanding of the philosophy of economics. Identify errors in economic analysis in the popular press and the wider community.

Prerequisites

Available to students who have completed *ECON 3070 Intermediate Microeconomic Theory*. Completion of *ECON 4808 Introduction to Mathematical Economics*, or the equivalent, is helpful, but not necessary. Please note that the course meets a requirement for The Actuarial Studies Certificate Program and will be taught with some mathematical emphasis. You should be familiar with microeconomic principles, algebra, calculus, optimization techniques and probability covered in your prerequisite classes (e.g., *ECON 1088 Math Tools for Economists 2* and *ECON 3818 Intro to Economic Statistics & Computer Applications*). You should also be comfortable expressing these concepts in short-answer questions in homework assignments and examinations.

You will need access to a high-speed Internet connection, a printer and/or scanner to submit your homework and complete this course. For individual assistance, please see: <https://oit.colorado.edu/services/learning-spaces-technology/student-printing-and-scanning/locations>.

Instruction Mode and Office Hours

I will conduct in-person classes on Tuesday and Thursday that will include lectures, problems and answers to your questions. Lecture outlines and homework assignments will be available through Canvas.

I will be available for in-person consultations on Tuesday and Thursday from 11.30am to 1pm or by appointment. Please visit my office or email your carefully written questions.

Your email should be somewhat formal and include an appropriate greeting (e.g., “Hello Professor Savage”) and goodbye (e.g., “Regards, Scott”). Please identify the class you are in (e.g., “ECON 4687”) and send your email during appropriate business hours. Take your time and think carefully about what you want to ask me and read it over before you hit “send.” Imagine that you are at your future place of employment, and you are corresponding with an important business associate, client, or manager that you would like to impress. Please do not make broad statements like “I cannot do question 4” or “I do not understand question 5.” Be specific and tell me exactly what you understand and do not understand about the question you are working on, so I can help you.

Textbooks

There is no required textbook for this class. Appropriate readings will be indicated in my lecture outlines and in class.

Your textbook from *ECON 3070 Intermediate Microeconomic Theory* will prove extremely useful for many topics. Alternatively, you may want to consider a second-hand copy of *Microeconomics*, by David Besanko and Ronald Braeutigam, John Wiley & Sons, for example, and/or *Intermediate Microeconomics: A Modern Approach*, by Hal Varian, W.W. Norton and Company (5th or any other approximate edition).

Class requirements

The critical thinking required for successful completion of this course may not come naturally. Classroom exposure to model building and testing, applied problems and solutions is the best way to become proficient in the application of microeconomic theory and the way economists think, communicate, and solve problems.

Craig and Savage (2014) show a strong correlation between attendance and final grades for undergraduate industrial organization students. See “Instructor Attire and Student Performance: Evidence from an Undergraduate Industrial Organization Experiment,” *International Review of Economics Education*, 2014, 17, 55-65.

For safety and administration reasons, please try to sit in the same seat throughout the semester. I may take attendance for my administrative records, but there will be no formal grade for attendance.

Please inform me immediately if an unforeseen emergency, illness or safety concern impacts your performance. I can help, but I need to know your circumstances as soon as possible to consider suitable alternative arrangements.

Feel free to form study groups to review and discuss lecture/reading material, homework assignments etc. However, you must submit your own individual work for grading. If you work with classmates on assignments, please list the names of these persons on the front page of your individually submitted assignment.¹

To successfully complete the class, each student should:

- (a) attend two 75-minute classes each week;
- (b) review and augment lecture notes after class;
- (c) be punctual, polite and respectfully engage in class discussion;
- (d) submit one practice homework;
- (e) complete (a minimum of five out of six) homework assignments;
- (f) complete (a minimum of two out of three) random quizzes;
- (g) complete one mid-term examination;
- (h) complete one final examination;
- (i) cooperate with your classmates and your Professor; and
- (j) carefully practice the University’s health and safety measures.

Cellular phones, laptops, tablets and other devices. You may use your devices for learning, e.g., electronic notetaking, photographs of the chalk board, etc., and to practice appropriate health and safety measures. Please do not use your device for calls, texts, social media and online activities, etc. during class. If you use your devices for activities that distract me or other students, I will call you out in class and/or ask you to leave the class immediately.

¹ More generally, follow the honor code when completing your assessments. My penalty for code violations may include expulsion from the class, along with referral to the university’s honor code council.

Grading

There will be one practice homework submission, six homework assignments (with the lowest score dropped from the overall homework grade), three quizzes (with the lowest score dropped from the overall quiz grade), one mid-term examination, and one final examination. The weights for these assessments are:

Practice homework submission	$(1 \times 2 \%)$	2 %
Homework assignments	$(5 \times 10 \%)$	50 %
Quizzes	$(2 \times 4 \%)$	8 %
Mid-term examination	$(1 \times 20 \%)$	20 %
Final examination	$(1 \times 20 \%)$	20 %

The practice homework submission will revise some fundamental microeconomic concepts required for this class and familiarize you with submitting your homework to the Canvas portal on time, and with the appropriate presentation style.

The homework assignments will consist of short-answer and problem-solving questions that require you to use diagrammatic, mathematical and written skills to *prove* your answers with appropriate logical steps. Homework presentation will count for 20 percent of each of your assignment grades, i.e., 5/25 points. Please write your mathematical and graphical answers clearly and smartly. Basic requirements for presentation include your name and homework heading, page numbers, appropriate labels for figures, graphs, tables, etc., clear and transparent economic and mathematical notation, and good grammar and flow. You may use a word processor and/or write neatly with a pen. Homework must be saved as a single pdf file and uploaded to Canvas before 5pm on the due date. Submissions at 5pm and after on the due date will incur a 25 percent penalty. Homework will *not* be accepted after 11.59pm on the due date.

Three quizzes will be randomly conducted in class during the semester. Each quiz will have ten multiple-choice questions on a topic or topics we have recently covered.

The mid-term and final examinations will comprise short-answer and problem-solving questions like the homework questions and class applications. You may need a basic non-programmable calculator during the examinations. I will let you know beforehand.

Make-up homework assignments, quizzes or examinations will only be given when there is a proven emergency, health or safety concern, or other unusual circumstance that are discussed with the instructor prior to submission/completion dates. If any issues hinder your performance in the class, please discuss with the instructor sooner than later. Any student that misses the quiz or mid-term exam due to a proven emergency or other circumstances may have their other assessments weighted up with instructor approval.

Important dates for assessment

Jan 28	Practice homework submission
Feb 4	Homework 1
Feb 18	Homework 2
Mar 4	Mid-term examination
Mar 11	Homework 3
April 1	Homework 4
April 15	Homework 5
April 29	Homework 6
May 6	Final examination ²

The Department of Economics provides a free drop-in tutorial office which offers help on all core courses in the major, and occasionally on other undergraduate courses in the Department. The website is:

<https://www.colorado.edu/economics/tutor-lab>

The Department also maintains a list of tutors who are available for private hire. The website is:

<https://www.colorado.edu/economics/private-tutor-list>

Campus and department policies

The Department of Economics enforces prerequisites. Students without the appropriate prerequisite(s) may be administratively dropped.

Please read the campus and department policies at:

<https://www.colorado.edu/economics/current-courses>

Please read the required syllabus statements at:

<https://view.officeapps.live.com/op/view.aspx?src=https%3A%2F%2Fwww.colorado.edu%2Facademicaaffairs%2Fmedia%2F463&wdOrigin=BROWSELINK>

If you have any conflicts or questions about these policies, please visit my office hours to discuss within the first two weeks of the semester.

For example, if you qualify for accommodations because of a disability, please submit your accommodation letter from Disability Services to me personally within the first two weeks of the semester. Or, for example, if you have religious obligations that conflict with the scheduled exams, assignments or required attendance, please discuss with me personally within the first two weeks of the semester.

² The final exam is on Tuesday, May 6 from 7.30 to 10pm. The exam schedule is available at <https://www.colorado.edu/registrar/students/calendar/finals#ucb-accordion-id--8-content3>.

Lecture topics

The lecture topics for topics in microeconomics are:

1. Consumer choice
2. Discrete consumer choice
3. Intertemporal choice
4. Uncertainty
5. Insurance and diversification
6. Contingent consumption
7. Insurance portfolio
8. Risky assets
9. Adverse selection
10. Moral hazard
11. Screening