

ECON 7050: Advanced Economic Theory

Fall 2010

Instructor: Professor Yongmin Chen

Office: Econ 112

Class Time: 1:30-2:45 MW

Class Room: ECON 119

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Office Hours: 10:30-12:00 a.m. MW

Course Description: This is the third graduate course in microeconomic theory. It contains several important topics that were not covered in the two previous microeconomic theory courses. It will also discuss some current research issues in microeconomic theory.

Course Materials: The textbook is *Microeconomic Theory*, by Mas-Colell, Whinston, and Green. Other reading materials, including articles, are indicated below or will be added during the semester.

Grading: Grades are based on homework and class participation (20%) and two exams (40% each). You are encouraged to form study groups to discuss homework and lecture materials.

Lecture Topics: Below is a tentative plan for the lectures. Changes will be announced in class during the semester and you are responsible for updating the information.

Topic 1 Competitive Markets

Readings: Ch. 10

Problem Set 1: 10.C.1, 10.C.2, 10.C.4, 10.C.9, 10.C.10.

Problem Set 2: 10.D.2, 10.D.4, 10.F.2, 10.F.6.

Topic 2 Externalities and Public Goods

Readings: Ch. 11.

Problem Set 3: 11.B.3, 11.B.4, 11.B.5, 11.C.1, 11.D.1, 11.D.6.

Topic 3 Market Power: Static Models of Monopoly and Oligopoly

Readings: Ch. 12: 12A-12C.

Problem Set 4: 12.B.4, 12.B.5, 12.B.9, 12.C.3, 12.C.9.

Topic 4 Dynamic Models of Imperfect Competition and Entry

Readings: Ch. 12: 12D-12E.

Problem Set 5: 12.C.18, 12 D.2., 12 E.4., 12 E.7.

Topic 5 The Principal-Agent Problem

Readings: Ch. 14

Problem Set 6: 14.B.4, 14.C.3, 14.C.7, 14.C.8.

Exam 1.

Topic 6 Exclusive Contracts

Readings:

Aghion, Philippe and Patrick Bolton, "Contracts as a Barrier to Entry," *AER*, 77(3), 1987.

Fumagalli, Chiara and Massimo Motta, "Exclusive Dealing and Entry when Buyers Compete," *AER*, 96(3), 2006.

Wright, Julian, "Exclusive Dealing and Entry, When Buyers Compete: Comment," *AER*, 2009, p. 1070-81.

Greenlee, Patrick, David Reitman, and David Sibley, "An Antitrust Analysis of Bundled Loyalty Discounts," *International Journal of Industrial Organization*, 2008.

Rasmusen, Eric, J. Mark Ramseyer, and John Wiley, "Naked Exclusion," *AER*, 1991.

Segal, Ilya and Michael Whinston, "Naked Exclusion: Comment," *AER*, 2000.

Segal, Ilya and Michael Whinston, "Exclusive Contracts and the Protection of Investments," *Rand Journal of Economics*, 2000.

Spier, Kathryn and Michael Whinston, "On the Efficiency of Privately Stipulated Damages for Breach of Contract: Entry Barriers, Reliance and Renegotiation," *Rand*, 1995.

Simpson, John and Abraham Wickelgren, "Naked Exclusion, Efficient Breach, and Downstream Competition," *AER*, 2007.

Topic 7 Search, Price Distribution, and Advertising

Readings:

- Armstrong, M, Vickers, J, and Zhou, J., "Prominence and Consumer Search", *RAND*, 2009

- Bagwell, K. and G. Ramey, “Coordination Economies, Advertising, and Search Behavior in Retail Markets”, AER (1994), 498-517.
- Bester, H., “Bargaining, Search Costs and Equilibrium Price Distributions”, RES (1988), 201-214.
- Reinganum, J., “A simple Model of Equilibrium Price Dispersion”, JPE (1979), pp. 851-858.
- Salop, S. and J. Stiglitz, “Bargains and Ripoffs: A Model of Monopolistically Competitive Price Dispersion”, RES (1977), pp. 493-510.
- Grossman and Shapiro, “Informative Advertising with differentiated products”, RES, 1984, 63-81.
- Chen, Y. and R. Rosenthal, “On the Use of Ceiling-price Commitments by Monopolists”, RAND (1996), 207-220.
- Baye, Michael and John Morgan. 2001. "Information Gatekeepers on the Internet and the Competitiveness of Homogeneous Product Markets." AER, 91, 454-474.
- Baye, M.R. and J. Morgan. 2004. "Price Dispersion in the Lab and on the Internet: Theory and Evidence." Rand, 35(3), 449-466.
- Burdett, Kenneth and Kenneth L. Judd. 1983. "Equilibrium Price Dispersion." Econometrica, 51, 955-969.
- Diamond, Peter. 1971. "A Model of Price Adjustment." Journal of Economic Theory, 3, 156-168.
- Janssen, Maarten C. and Jose Luis Moraga-Gonzalez. 2004. "Strategic Pricing, Consumer Search and the Number of Firms." Review of Economics Studies, 71, 1089-1118.
- Reinganum, Jennifer F. 1979. "A simple Model of Equilibrium Price Distribution." Journal of Political Economy, 87, 851-858.
- Stahl, Dale O. 1989. "Oligopolistic Pricing with Sequential Consumer Search." AER, 700-712.
- Varian, Hal. 1980. "A Model of Sales." American Economic Review, 70, 651-659.

Topic 8 Product Bundling

Readings:

Adams, William J. and Janet L. Yellen (1976), "Commodity Bundling and the Burden of Monopoly," Quarterly Journal of Economics, 90, 475-98.

Carbajo, Jose, David De Meza, and Daniel J. Seidman (1990), "A Strategic Motivation for Commodity Bundling," Journal of Industrial Economics, 38, 283-298.

- Chen, Yongmin (1997), "Equilibrium Product Bundling," *Journal of Business*, 70, 85-103.
- Chen, Yongmin, and Michael H. Riordan (2010), "Preference Dependence and Product Bundling", working paper.
- McAfee, R. Preston, John McMillan, and Michael D. Whinston (1989), "Multiproduct Monopoly, Commodity Bundling, and Correlation of Values," *Quarterly Journal of Economics*, 104, 371-83.
- Nalebuff : Nalebuff, Barry (2004), "Bundling as an Entry Barrier," *Quarterly Journal of Economics*, 119, 159-87.
- Schmalensee, Richard (1982), Commodity Bundling by a Single-Product Monopolies, *Journal of Law and Economics*, 25, 67-71.
- Schmalensee, Richard (1984), "Gaussian Demand and Commodity Bundling," *Journal of Business*, 57, S211-S230.
- Stigler, George (1963), "A Note on Block Booking," *U.S. Supreme Court Review*, 1963, 152-175.
- Chu, Leslie, and Sorensen (2009), "Bundle-Size Pricing as an Approximation to Mixed Bundling", *AER*, forthcoming.

Topic 9. Bounded Rationality in Industrial Organization

Readings

- Ellison, Glenn, "Bounded Rationality in Industrial Organization", in Blundell, Newey and Persson (eds.), *Advances in Economics and Econometrics: Theory and Applications*, Ninth World Congress, Cambridge University Press, 2006, available at Glenn Ellison's website.
- Gabaix, Xavier & David Laibson. 2006. "Shrouded Attributes, Consumer Myopia, and Information Suppression in Competitive Markets." *QJE*, 121(2):505—540.
- Armstrong, Mark and Yongmin Chen, "Inattentive Consumers and Product Quality". *Journal of the European Economic Association*, 2009.
- Spiegler, Ran. 2006. "The Market for Quacks." *Review of Economics Studies*, 73, 1113-1131.

Exam 2

Discuss and review current research in microeconomic theory.

University Policies

Students with Disabilities

If you qualify for accommodations because of a disability, please submit to me a letter from

Disability Services **by September 9th** so that your needs may be addressed. Disability Services determines accommodations based on documented disabilities. University policies regarding disabilities are available at www.colorado.edu/disabilityservices. Disability Services can be contacted by telephone at (303) 492 8671 or in person at Willard 322.

Religious Observances

Campus policy regarding religious observances requires that faculty make every effort to deal reasonably and fairly with all students who, because of religious obligations, have conflicts with scheduled exams, assignments, or required attendance. If you have a conflict due to a religious obligation, please see me **at least one full week in advance** so that alternate arrangements can be made. Policies regarding religious observances are available at www.colorado.edu/policies/fac_relig.html.

Classroom Behavior

Students and faculty each have responsibility for maintaining an appropriate learning environment. Those who fail to adhere to such behavioral standards may be subject to discipline. Professional courtesy and sensitivity are especially important with respect to individuals and topics dealing with differences of race, culture, religion, politics, sexual orientation, gender, gender variance, and nationalities. Class rosters are provided to the instructor with the student's legal name. I will gladly honor your request to address you by an alternate name or gender pronoun. Please advise me of this preference early in the semester so that I may make appropriate changes to my records. Policies regarding classroom behavior are available at <http://www.colorado.edu/policies/classbehavior.html> and at http://www.colorado.edu/studentaffairs/judicialaffairs/code.html#student_code.

Discrimination and Harassment

The University of Colorado at Boulder policy on Discrimination and Harassment, the University of Colorado policy on Sexual Harassment, and the University of Colorado policy on Amorous Relationships apply to all students, staff, and faculty. Any student, staff, or faculty member who believes s/he has been the subject of sexual harassment or discrimination or harassment based upon race, color, national origin, sex, age, disability, creed, religion, sexual orientation, or veteran status should contact the Office of Discrimination and Harassment (ODH) at (303) 492 2127 or the Office of Judicial Affairs at (303) 492 5550. Information about the ODH, the above referenced policies, and the campus resources available to assist individuals regarding discrimination or harassment can be obtained at <http://www.colorado.edu/odh>.

Academic Misconduct

All students of the University of Colorado at Boulder are responsible for knowing and adhering to the academic integrity policy of this institution. Violations of this policy may include cheating, plagiarism, aid of academic dishonesty, fabrication, lying, bribery, and threatening behavior. All incidents of academic misconduct shall be reported to the Honor Code Council (honor@colorado.edu, (303) 735 2273). Students who are found to be in violation of the academic integrity policy will be subject to both academic sanctions from the faculty member and non-academic sanctions (including but not limited to university

probation, suspension, or expulsion). Other information on the Honor Code can be found at www.colorado.edu/policies/honor.html and at www.colorado.edu/academics/honorcode