

Instructor: Oleg Baranov (*Assistant Professor, Department of Economics*)

Instructor Info		Class Info	
Office:	ECON 14A	Class Location:	<i>N/A, online class</i>
Voice:	303.492.7869	Meeting Times:	<i>N/A, online class</i>
Email:	oleg.baranov@colorado.edu	Zoom Office Hours:	W,TH 9:00 — 10:00 am MT
Website:	www.obaranov.com		(or by appointment)

1 Class Website

All course materials will be posted on the [Canvas](https://canvas.colorado.edu/) website that can be accessed at <https://canvas.colorado.edu/>.

2 Instructions

This class will be taught ONLINE and delivered asynchronously which means there are not scheduled days and times. All class materials (including video lectures), activities and assignments are hosted on the class Canvas page. Students can complete the coursework throughout the week when it is convenient for them. Students must meet all milestones (assignments and class activities) that are assigned for a particular week. Instructions for each week will be posted on the class page (Announcements Tab).

3 Communication

The working communication channel is extremely important in online classes. Every student in the class needs to make sure that his or her email address is listed correctly on Canvas, and that he or she receives all class emails. It is important to monitor your email, especially around “Due” days and times. **In this class, I will assume that all students have received, read, and responded (if needed) to my emails after 24 hours from their “sent” times.**

Note: Fast responses to my emails are extremely important for students on the waitlist.

4 Course Description

Economists are increasingly involved not just in studying but in designing practical market mechanisms. These include auctions to sell diamonds, timber, electricity, procurement contracts and radio spectrum; matching algorithms to assign students to schools, or candidates to jobs; as well as marketplaces and mechanisms to sell internet advertising, trade financial securities, or reward innovation. The field of market design studies how to construct rules for allocating resources or to structure successful marketplaces. It draws on the tools of game theory and mechanism design to identify why certain market rules or institutions succeed and why others fail.

The course consists of three parts. In the first part, we review the fundamental concepts from the game theory and develop strategic thinking. In the second part, we look at the “matching markets” that operate without prices, highly unusual for economics. Examples include assigning students to schools, assigning donor kidneys to transplant patients and college admissions. The third part of the class is on auctions and good auction design. Examples range from simple auctions used by eBay and Christie’s to auctions used in financial markets, auctions used by Google, Facebook and Microsoft to sell advertising, and auctions used by government to sell large-scale complex assets such as radio spectrum.

5 Textbook/Readings

A textbook for this class is “Market Design” by Guillaume Haeringer. Additional readings will be indicated in lecture slides and available on the class website. The readings are mostly economics journal articles, or popular press articles, that provide some context for the class. All listed papers (at least large parts of them) should be readable.

6 Informal Readings

A book “*Thinking Strategically*” by Avinash Dixit and Barry Nalebuff is a very famous book suitable for the Game Theory part of the class. A book “*Who Gets What — and Why: The New Economics of Matchmaking and Market Design*” by Alvin E. Roth is an easy read suitable for the Matching part of the class.

7 Prerequisites

The course is available to students who have completed ECON 3070 Intermediate Microeconomic Theory. The class does not require prior knowledge of mathematical concepts beyond the ones covered in ECON 1088. However, the course includes a great deal of math, economic theory and extensive strategic arguments. Students should expect theoretical arguments in every class.

8 Assessment

There will be two midterm exams, the final exam and ten problem sets.

Class Activities	<i>30 games/exercises</i>	15% of the grade (dropping two lowest scores)
Problem Sets	<i>10 problem sets</i>	25% of the grade (dropping one lowest score)
Midterms	<i>2 midterms</i>	20% each
Final Exam		20%

There will be no make-up exams. A student who misses a midterm due to an excused absence will have the additional weight shifted to the final. Feel free to form study groups to review and discuss lecture/reading materials, and homework assignments **but you must submit individual work for grading.**

Final Exam Policy: Every student in the course has to take the Final Exam and score at least 20 points (out of 100 points). **Any student who scores less than 20 points fails the class.**

9 Tentative Course Outline

Week	Covered Material	Slidepack
MODULE 1: GAME THEORY		
1	Dominance and Iterative Dominance	1a
2 - 3	Nash Equilibrium	1b
4	Mixed Strategies & Dynamic and Bayesian Games	1c
5	MIDTERM I	
MODULE 2: MATCHING		
6	Two-Sided Matching	2a
7	Two-Sided Applications	2b
8	One-Sided Matching, Kidney Exchange	2c
9	School Choice	2d
10	MIDTERM II	
MODULE 3: AUCTIONS		
11 - 12	Auction Theory	3a
12	Auction Design	3b
13	Multi-Item Auctions	3d
14	Thanksgiving Break	
15	Sponsored Search Auctions	3e
16	Financial Exchanges	3f
17	FINAL EXAM	

10 Tutors

The Economics Department provides a free drop-in tutorial lab which provides assistance on all core courses in the major, and occasionally on other undergraduate courses in the Department. See appropriate links here <https://www.colorado.edu/economics/undergraduate-program>.

11 Detailed Course Outline

Game Theory Part

1. Static Games (dominant and dominated strategies, iterative elimination of dominated strategies, Nash Equilibrium)
2. Dynamic Games (subgame perfect equilibrium and backward induction)

3. Incomplete Information (simple games with incomplete information, concept of Bayesian Nash equilibrium)

Matching Part

4. Introduction to Matching Markets (“marriage market” and one-to-one matching, stable matches, the Deferred Acceptance algorithm, existence result, optimal matches for both sides of the market, incentives of participants, roommate problem)

Readings:

“College Admissions and the Stability of Marriage” by David Gale and Lloyd Shapley (1962)

5. Stable Matching and Orderly Markets (stable matchings and orderly markets, the problem of market unravelling, case study: medical residents and the NRMP, medical fellowships, law clerks, college admission)

Readings:

“What Have We Learned from Market Design” by Alvin Roth (2008)

“The Re-Design of the Matching Market for American Physicians: Some Engineering Aspects of Economic Design” by Alvin Roth and Elliott Peranson (1999)

6. House Allocation and Kidney Exchange (House Allocation Problem, efficient outcomes and the core, serial dictatorship, the top trading cycles algorithm and its variations, kidney exchanges)

Readings:

“A Kidney Exchange Clearinghouse in New England” by Alvin Roth, Tayfun Sonmez and Utku Unver (2005)

“Kidney Exchange: A Life-Saving Application of Matching Theory” (2005)

7. School Choice (School Choice Problem, the Boston algorithm and its incentives, deferred acceptance and top trading cycles as alternatives, problem of ties, case studies: NYC and Boston)

Readings:

“The New York City High School Match” by Atila Abdulkadiroğlu, Parag Pathak and Alvin Roth (2005)

“The Boston Public School Match” by Atila Abdulkadiroğlu, Parag Pathak, Alvin Roth and Tayfun Sonmez (2005)

“School Choice” by Joseph Malkevitch

Auctions Part

8. Introduction to Auction Theory (private value model, first and second price sealed bid auctions, all pay auctions, ascending auctions, the revenue equivalence theorem, eBay auctions - equivalence and nonequivalence to the second-price auction)

Readings:

“The Bidding Game” National Academy of Sciences Beyond Discovery Report (2003)

9. Designing Good Auctions (how to design an auction, facilitating entry, reserve prices, bidder subsidies, collusive bidding, optimal auction design)

Readings:

“What Really Matters in Auction Design” by Paul Klemperer (2002)

10. Common Value Auctions (common value model, the winner’s curse, examples and applications, aggregation of information, application to oil lease auctions)

Readings:

“An Empirical Study of an Auction with Asymmetric Information” by Ken Hendricks and Robert Porter (1988)

“Anomalies: The Winner’s Curse” by Richard Thaler (1988)

11. Multi-Unit Auctions (multi-unit auctions, uniform price, pay-as-bid price (discriminatory), demand reduction, Vickrey pricing and efficient auction design, case study: treasury auctions)
12. Sponsored Search Auctions (the sponsored search market, Google’s advertising auction, bidding incentives and equilibria, other ways to run the auction, Facebook’s Vickrey auction, optimal design in search auctions (Yahoo case study))

Readings:

“The Economics of Internet Search” by Hal Varian (2007)

“Online Advertising: Heterogeneity and Conflation in Market Design” by Jonathan Levin and Paul Milgrom (2010)

13. Financial Markets and High-Frequency Trading (electronic markets for trading equity and other financial securities, the use of auctions for IPOs, real-time trading and market clearing, competition between exchanges)

Readings:

“Concept Release on Market Structure” by SEC (2010)

“The High-Frequency Trading Arms Race: Frequent Batch Auctions as a Market Design Response” by Eric Budish, Peter Cramton and John Shim

SYLLABUS STATEMENTS

CLASSROOM BEHAVIOR

Both students and faculty are responsible for maintaining an appropriate learning environment in all instructional settings, whether in person, remote or online. 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 race, color, national origin, sex, pregnancy, age, disability, creed, religion, sexual orientation, gender identity, gender expression, veteran status, political affiliation or political philosophy. For more information, see the policies on [classroom behavior](#) and the [Student Conduct & Conflict Resolution policies](#).

REQUIREMENTS FOR COVID-19

As a matter of public health and safety due to the pandemic, all members of the CU Boulder community and all visitors to campus must follow university, department and building requirements and all public health orders in place to reduce the risk of spreading infectious disease. Students who fail to adhere to these requirements will be asked to leave class, and students who do not leave class when asked or who refuse to comply with these requirements will be referred to [Student Conduct and Conflict Resolution](#). For more information, see the policy on [classroom behavior](#) and the [Student Code of Conduct](#). If you require accommodation because a disability prevents you from fulfilling these safety measures, please follow the steps in the “Accommodation for Disabilities” statement on this syllabus.

As of Aug. 13, 2021, CU Boulder has returned to requiring masks in classrooms and laboratories regardless of vaccination status. This requirement is a temporary precaution during the delta surge to supplement CU Boulder’s COVID-19 vaccine requirement. Exemptions include individuals who cannot medically tolerate a face covering, as well as those who are hearing-impaired or otherwise disabled or who are communicating with someone who is hearing-impaired or otherwise disabled and where the ability to see the mouth is essential to communication. If you qualify for a mask-related accommodation, please follow the steps in the “Accommodation for Disabilities” statement on this syllabus. In addition, vaccinated instructional faculty who are engaged in an indoor instructional activity and are separated by at least 6 feet from the nearest person are exempt from wearing masks if they so choose.

Students who have tested positive for COVID-19, have symptoms of COVID-19, or have had close contact with someone who has tested positive for or had symptoms of COVID-19 must stay home. In this class, if you are sick or quarantined, notify me to work out an individual plan for covering materials and submitting assignments.

ACCOMMODATION FOR DISABILITIES

If you qualify for accommodations because of a disability, please submit your accommodation letter from Disability Services to your faculty member in a timely manner so that your needs can be addressed. Disability Services determines accommodations based on documented disabilities in the academic environment. Information on requesting accommodations is located on the [Disability Services website](#). Contact Disability Services at 303-492-8671 or dsinfo@colorado.edu for further assistance. If you have a temporary medical condition, see [Temporary Medical Conditions](#) on the Disability Services website.

PREFERRED STUDENT NAMES AND PRONOUNS

CU Boulder recognizes that students' legal information doesn't always align with how they identify. Students may update their preferred names and pronouns via the student portal; those preferred names and pronouns are listed on instructors' class rosters. In the absence of such updates, the name that appears on the class roster is the student's legal name.

HONOR CODE

All students enrolled in a University of Colorado Boulder course are responsible for knowing and adhering to the Honor Code academic integrity policy. Violations of the Honor Code may include, but are not limited to: plagiarism, cheating, fabrication, lying, bribery, threat, unauthorized access to academic materials, clicker fraud, submitting the same or similar work in more than one course without permission from all course instructors involved, and aiding academic dishonesty. All incidents of academic misconduct will be reported to the Honor Code (honor@colorado.edu; 303-492-5550). Students found responsible for violating the academic integrity policy will be subject to nonacademic sanctions from the Honor Code as well as academic sanctions from the faculty member. Additional information regarding the Honor Code academic integrity policy can be found on the [Honor Code website](#).

SEXUAL MISCONDUCT, DISCRIMINATION, HARASSMENT AND/OR RELATED RETALIATION

The University of Colorado Boulder (CU Boulder) is committed to fostering an inclusive and welcoming learning, working, and living environment. CU Boulder will not tolerate acts of sexual misconduct (harassment, exploitation, and assault), intimate partner violence (dating or domestic violence), stalking, or protected-class discrimination or harassment by or against members of our community. Individuals who believe they have been subject to misconduct or retaliatory actions for reporting a concern should contact the Office of Institutional Equity and Compliance (OIEC) at 303-492-2127 or email

cureport@colorado.edu. Information about OIEC, university policies, [reporting options](#), and the campus resources can be found on the [OIEC website](#).

Please know that faculty and graduate instructors have a responsibility to inform OIEC when made aware of incidents of sexual misconduct, dating and domestic violence, stalking, discrimination, harassment and/or related retaliation, to ensure that individuals impacted receive information about their rights, support resources, and reporting options.

RELIGIOUS HOLIDAYS

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. In this class, notify me at least two weeks prior to any conflicts due to religious observances. See the [campus policy regarding religious observances](#) for full details.