

Microeconomic Theory
ECON5010
CUHK
Fall 2021

Instructor: Jimmy Hing Chi Chan

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Lecture: Wed 3:30-6:15pm

Venue: Esther Lee Bldg 302

Office Hour: Thurs: 1-2:30pm or by appointment

Course Description: The course consists of four components: 1. Choice theory and classical consumer theory (lectures 1-5), 2 Choice under uncertainty (lectures 6-10), and 3. General Equilibrium Theory (lectures 11-13).

References:

1. *Lecture Notes in Microeconomic Theory* [R], 2006, Ariel Rubinstein, Princeton University Press (Free downloads from Rubinstein's webpage)
2. *Microeconomic Theory* [MWG], 1995, Mas- Colell, Whinston, and Green, Oxford University Press
3. *Microeconomic Foundations 1: Choice and Competitive Markets* [K], 2013, David Kreps, Princeton University Press
4. *Notes on the Theory of Choice* [K2], 1988, by David Kreps, Westview Press

Course Requirement: There are five problem sets, a midterm and a final exam

Grading: problem sets 10%, midterm 25% (lectures 1-5), and final 65% (whole course). Exams will be online if face-to-face examinations are not possible.

Midterm (TBA) and final (TBA)

Course Outline

1. Choice, preferences, and utility (lectures 1-3 [R], Ch. 3A-C [MWG])
2. The consumer problem: convex preferences, Marshallian demand, (Ch. 2 A-E, Ch. 3 D [MWG], lecture 4 [R], Ch 3 [K])
3. Revealed preferences and Afriat's theorem (Ch. 4 [K], [6], [7])
4. Expenditure minimization, Hicksian demand, duality, and Slutsky decomposition (Ch. 3. E, F, G [MGW], lecture 6 [R], Ch 10.1-6 [K])
5. Classical and behavioral welfare economics (Ch. 3 I [MWG], [2], [3], [4], [5], [14])

6. Choice under uncertainty: the independence axiom, expected utility, and the Allais paradox (lecture 8 [R], Ch. 6 A-C [MWG], Ch. 5 [K])
7. Mid-term (Lecture 1-5)
8. Utility for money and risk aversion (Lecture 9 [R], Ch. 6 [K])
9. First and second order stochastic dominance (Ch. 6.D [MWG])
10. Measuring risk preferences, Rabin's calibration theorem, reference point and loss aversion ([1], [12], [13], [10]. [11])
11. Introduction to general equilibrium (Ch. 15 [MWG], Ch 14 1-3 [K])
12. First and second welfare theorems, convergence to the core (Ch. 16 A-D, Ch 18 A,B [MWG], Ch. 15 [K])
13. Existence of general equilibrium (Ch. 17 A-C, E [MWG], Ch 14.4 [K])

References

References

- [1] Barseghyan, Levon, Francesca Molinari, and Ted O'Donoghue, 2018, Estimating Risk Preferences in the Field, *Journal of Economic Literature*, 56:501-564
- [2] Bernheim, Douglas, 2009, Behavioral Welfare Economics, *Journal of European Economic Association* 7:267-319
- [3] Bernheim, Douglas, Andrey Fradkin and Igor Popov, The Welfare Economics of Default Options in 401(k) Plans, *American Economic Review*, 105:2798-2837
- [4] Bernheim, Douglas and Antonio Rangel, 2008, Beyond Revealed Preference: Choice Theoretic Foundations for Behavioral Welfare Economics, *Quarterly Journal of Economics* 51-103 (lecture 1)
- [5] Chetty, Looney, and Kroft, 2009, Salience and Taxation: Theory and Evidence, *American Economic Review* 99:4 1145-1177
- [6] Echenique, Lee and Shum, 2012, Revealed Preference Tests Using Supermarket Data: The Money, Pump, *Journal of Political Economy*
- [7] Fostel, Scarf and Todd, 2004, Two new proofs of Afriat's theorem, *Economic Theory* 24:211-219
- [8] Harbaugh, Karuse, and Berry, 2001, GARP for Kids, *American Economic Review*, vol 91:1539-1545
- [9] Jensen, Robert and Nolan Miller, 2008, Giffen Behavior and Subsistence Consumption, *American Economic Review*, September

- [10] Koszegi and Rabin, A Model of Reference-Dependent Preferences, Quarterly Journal of Economics, 121:4
- [11] Koszegi and Rabin, 2007, Reference-Dependent Risk Attitudes, American Economic Review
- [12] Koszegi and Rabin, 2008, Choice, Situations and Happiness, Journal of Public Economics, 1821-1832
- [13] Rabin, Matthew, 2000, Risk aversion and expected-utility theory: A calibration theorem, Econometrica 68, pp. 1281-1292
- [14] Rabin and Thaler, 2001, "Risk Aversion," Journal of Economic Perspectives, pp.219-232
- [15] Salant, Yuval and Ariel Rubinstein, 2008, (A,f): Choice with Frames, , Review of Economic Studies
- [16] Schildberg-Hörisch, Hannah , 2018, Are Risk Preferences Stable? Journal of Economic Perspectives, 32:135-154