

# DRAFT

**University of California, Davis**  
**Agricultural Economics 200A & Economics 200A**  
**MICROECONOMIC THEORY**  
**Fall 2011**

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The course web page can be accessed through the portal <http://smartsite.ucdavis.edu/>.

This is the first course of the basic Microeconomic Theory sequence for graduate students in the Ph. D. programs. The only *de facto* prerequisite is a good command of the Math Camp material.

The objective of the course is threefold:

- (a) To acquire a working knowledge of modern microeconomic theory;
- (b) To develop the ability to model and formally analyze economic issues, and
- (c) To gain familiarity with the use of theoretical tools in empirical work.

## TEXTBOOK

Andreu Mas-Colell, Michael D. Whinston and Jerry Green, *Microeconomic Theory*, New York: Oxford University Press, 1995.

## OTHER BOOKS

The Math Camp textbook (Carl P. Simon and Lawrence Blume, *Mathematics for Economists*, New York: Norton 1994) is a useful reference for many 200A topics.

The command of the Math Camp material *is* a prerequisite for ARE/ECN 200A. On the other hand, ARE/ECN 200A does not presuppose the knowledge of intermediate microeconomics. Nevertheless, if you have never taken intermediate microeconomics (or if you have forgotten it), you may wish to consult from time to time an intermediate microeconomics textbook for simple, low-tech versions of some of the ideas. A good such book is Hal R. Varian *Intermediate*

*Microeconomics*, 8<sup>th</sup> edition, 2010 (or any previous edition). The chapters relevant for 200A are 2-10, 12, 14-15, and 18-22. Varian also has a graduate textbook, with title *Microeconomic Analysis*.

## SYLLABUS

### 1. Introduction

Microeconomics. Positive and normative analysis. The choice approach and the preference approach.

### 2. Consumer choice

Consumption sets. Budget sets and the budget equality. Walrasian demand. Cournot and Engel aggregation. Elasticities. The weak axiom of revealed preference. The law of compensated demand and the negative semidefiniteness of the Slutsky matrix.

### 3. Classical demand theory

Preferences and utility. Utility maximization. Walrasian demand. The indirect utility function. Expenditure minimization. The duality theorem. Hicksian demand and the expenditure function. The negative semidefiniteness and symmetry of the Slutsky matrix. Jevonsian demand. Integrability. Evaluation of economic changes: the equivalent and compensating variations. Deadweight losses.

### 4. Aggregate demand

Aggregate demand and aggregate wealth. Indirect utility functions of the Gorman form. Positive and normative representative consumers. Potential compensation. Social welfare functions.

### 5. Production

The objectives of firms. Technology: production sets, transformation functions and production functions. The absence of market power. The profit maximization problem. The cost minimization problem. Technology aggregation.

### 6. Uncertainty

Actions, outcomes and *ex ante* preferences. The independence axiom and Allais paradox. Expected utility theory. Risk aversion. Who is more risk averse? Contingent commodities. Insurance and portfolio choice. Absolute risk bearing and wealth. Stochastic dominance.

## GRADING

9 Homework problem sets @ 1.4 points each	12.6 points
2 Midterms @ 23.7 points each	47.4 points
1 Comprehensive final examination	<u>40 points</u>
TOTAL	100 points

### Note on the Grading of Problem Sets

You will obtain full credit for a problem set if you spend enough time and effort on it. There will be only three marks: “✓,” “I” and “X,” with the following meaning.

- i) ✓ = 1.4 points: a considerable effort has been made in all problems with good overall results.
- ii) I = 1 point: substantial, but incomplete, progress.
- iii) X = 0 points: problem set not submitted or poorly developed.

Accordingly, we expect everybody to obtain a “✓” in most or all problem sets. But note that a “✓” is not a validation of your answers as 100% correct.

It is your responsibility to check your answers against the answer key, and ask for help if you need clarification. No matter what grade you obtain in the homework, the failure to understand how a problem is approached and solved, or to answer similar questions in an exam, may have serious consequences. Please study in depth the answer keys to problem sets and midterms.

Please check with us, in office hours, section, by e-mail or by making an appointment, if you get stuck or need extra help while working on the sets.

## CALENDAR

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*All exams will take place in the lecture classroom*