

ECON 7050: Advanced Economic Theory

Fall 2015

Instructor: Professor Yongmin Chen
Office: Econ 112
Class Time and Location: 12:30-1:45, TTH; ECON 119
Office Hours: 10:00-11:30 and 3:30-5:00, Tuesday
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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 additional advanced topics of interest.

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 Exam 1 (35%), Exam 2 (40%) and a modeling exercise (25%). In the modeling exercise, you will be asked to develop a simple model to describe and analyze a microeconomic problem. It is **very important** for you to work on and solve all the problems in the problem sets. You are encouraged to form study groups to discuss problem sets and assigned readings.

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 course information.

Topic 1 Monopoly and Imperfect Competition

Readings: Ch. 12

Problem Set 1: 12.B.4, 12.B.5, 12.B.9, 12.C.3, 12.C.9.

Problem Set 2: 12.C.18, 12 D.2., 12 E.4., 12 E.7, 12G.1.

Topic 2 Pass-through and Differential Pricing

Readings:

Weyl, E. Glen and Michal Fabinger. "Pass-Through as an Economic Tool" JPE, 121 (2013): 528-583.

Chen, Y. and M. Schwartz. "Differential Pricing when Costs Differ: A Welfare Analysis", RAND, 2015

Topic 3 Adverse Selection, Signaling, and Screening

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

Additional Readings:

Chen, Yongmin and David Sappington, "Exclusive Contracts, Innovation, and Welfare," American Economic Journals: Microeconomics, Vol. 3, 194-220, 2011.

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

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

Segal, Ilya and Michael Whinston, "Exclusive Contracts and the Protection of Investments," RAND, 2000.

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

Exam 2 Thursday, Nov. 19

Topic 7 Economics of Search

1. Price Search in Homogeneous Product markets

- (1) Salop and Stiglitz's "Bargains and Ripoffs"
- (2) Varian's model of sales
- (2) Diamond's Paradox
- (3) Stahl's model of sequential search

2. Product Search in Differentiated Markets and on the Internet

- (1) Wolinsky's model
- (2) Paid Placement: Advertising and Search on the Internet

Readings:

Diamond, Peter. 1971. "A Model of Price Adjustment." Journal of Economic Theory, 3, 156-168.

Salop, S. and J. Stiglitz, "Bargains and Ripoffs: A Model of Monopolistically Competitive Price Dispersion", RES (1977), pp. 493-510.

- 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
- Wolinsky, A. 1986. "True Monopolistic Competition as a Result of Imperfect Competition," QJE, 101: 493-511.
- Chen, Y. and C. He, 2011. "Paid Placement: Advertising and Search on the Internet,"

