

Course Schedule and Readings for *Elements of Economic Analysis II*

E. Glen Weyl
University of Chicago

Fall 2011-2

Each lecture includes required readings and references; references are typically more difficult than the required readings and may be substituted by students interested in a more detailed treatment. Required readings with ★'s next to them are required only in the Turbo section and should be considered references by students in the normal section. Readings are roughly in order of importance.

The text book for the course is Hal Varian's *Intermediate Microeconomics*, 8th Edition; all student should purchase this text. We will also occasionally use Gary S. Becker's *Economic Theory*, two copies of which will be on reserve in the library for this course. We will also read some articles taken from books and economics journals and slides from other economists; all of these will be posted on the website. Many lectures will also have associated lecture notes, which will be your primary study guides. Articles among the references will not be posted on the website, links to these articles on JStor or other online archives will be provided. Two copies of books included among the references will be on reserve during the relevant weeks in the library. If you have any trouble accessing these resources, please speak with your section leader.

A separate, extended reading list is available for students interested in digging deeper. This includes, for each lecture, readings that supply greater technical depth, empirical and policy applications, historical references about the origins of the concepts taught in class, contrasting/alternative perspectives on the issues considered, related current events and related readings from the humanities (primarily literature and philosophy).

Week 1: Introduction

Lecture 1: Introduction (Tuesday, September 27)

In that Empire, the Art of Cartography attained such Perfection that the map of a single Province occupied the entirety of a City, and the map of the Empire, the entirety of a Province. In time, those Unconscionable Maps no longer satisfied, and the Cartographers Guilds struck a Map of the Empire whose size was that of the Empire, and which coincided point for point with it. The following Generations, who were not so fond of the Study of Cartography as their Forebears had been, saw that that vast Map was Useless, and not without some Pitilessness was it, that they delivered it up to the Inclemencies of Sun and Winters. In the Deserts of the West, still today, there are Tattered Ruins of that Map, inhabited by Animals and Beggars; in all the Land there is no other Relic of the Disciplines of Geography.

– Jorge Luis Borges, “On Exactitude in Science”

Required

1. “Occupational Licensure” by Milton Friedman
2. Varian, Chapter 33 (Section 1)
3. ★“The ‘Corroboration’ of Theories” by Hilary Putnam★
4. ★“The Economic Approach to Human Behavior” by Gary S. Becker★

References

- *Capitalism and Freedom* by Milton Friedman
- *The Structure of Scientific Revolutions* by Thomas S. Kuhn (substitutes for the Putnam piece)
- Varian, Chapter 30 (complements the Becker piece)

Lecture 2: Theory of the Firm (Thursday, September 29)

Required

1. Varian, Chapter 19 (Sections 1-4) and Chapter 37 (Sections 4 and 7-8)
2. “The Social Responsibility of Business is to Increase Profits” by Milton Friedman
3. ★“The Nature of the Firm” by R. H. Coase★

References

- “A Survey of Corporate Governance” by Andrei Shleifer and Robert Vishny (substitutes for Varian, Chapter 37 and Friedman)
- “The Boundaries of the Firm Revisited” by Bengt Holmström and John Roberts (substitutes for Varian, Chapter 19 and Coase)
- “Corporate Governance” by Jean Tirole from *The Theory of Corporate Finance* (also substitutes for Varian 37 and Friedman)

Week 2: Supply

Lecture 3: Cost (Tuesday, October 4)

Requires

Varian, Chapters 18, 20 (except Section 2) and 21

Reference

Becker, Lectures 24 and 25 (complements Varian)

Lecture 4: Firm Supply and Duration (Thursday, October 6)

Problem Set 1 due at beginning of lecture

Required

1. Varian, Chapters 11 (Section 7 only) and 22
2. Course note “Durable and Storable Factors”
3. ★Becker, Lecture 17★

Reference

1. *On Time* by Peter Diamond (substitutes for Becker)
2. “Cattle Cycles” by Sherwin Rosen et al. (complements Becker)

Week 3: Perfect Competition

Lecture 5: Industry Supply and Rents (Tuesday, October 11)

Required

1. Varian, Chapter 23 (Sections 1-8)
2. ★“Power Laws in Economics and Finance” by Xavier Gabaix (Sections 1 and 5)★

3. Becker, Lecture 16 (second half only, starting with “Economic Rent”)

References

- “Power Laws in Economics and Finance” by Xavier Gabaix (substitutes for Gabaix)
- “The Economics of Superstars” by Sherwin Rosen (complements Gabaix)
- “The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity” by Mark J. Melitz (complements Becker)

Lecture 6: Perfect Competition (Thursday, October 13)

Required

1. Varian, Chapters 31 (Sections 1-3 and 8-13) and 32 (Sections 1-2 and 7-14)
2. “The Use of Knowledge in Society” by F. A. Hayek
3. ★“Walrasian Equilibrium without Gross Substitutes” by Eduardo Azevedo et al. (only Section 2)★

References

- *On Liberty* by John Stuart Mill, Chapter 3
- “The Stability of Equilibrium” by Paul Samuelson
- “On the (Ir)Relevance of Distribution and Labor Supply Distortion to Government Policy” by Louis Kaplow (substitutes for Varian 31.13)
- “Markets with a Continuum of Traders” by Robert Aumann (substitutes for Azevedo et al.)

Week 4: Externalities

Lecture 7: Payment in Accordance with Product (Tuesday, October 18)

Problem set 2 due at beginning of class

Required

1. Varian, Chapters 23 (Section 11), 34, 35 (Sections 4-8)
2. “An Economic Theory of Tort Law” by Robert Cooter and Thomas Ulen
3. ★“Studying Optimal Paternalism, Illustrated by a Model of Sin Taxes” by Ted O’Donoghue and Matthew Rabin★

References

- “Prices vs. Quantities” by Martin Weitzman
- “Property Rules v. Liability Rules” by Louis Kaplow and Steven Shavell (substitutes for Cooter and Ulen)
- “Behavioral Public Economics” by Douglas Bernheim and Antonio Rangel (substitutes for O’Donoghue and Rabin)
- “Information and the Coase Theorem” by Joseph Farrell (substitutes for Varian Chapter 34)
- “A Price Theory of Multi-Sided Platforms” by E. Glen Weyl

Lecture 8: Assessing Externalities (Thursday, October 20)

Required

1. Varian, Chapters 17 and 36 (Sections 9-11)
2. Short (4-page) executive summary of the “Stern Review on the Economics of Climate Change”
3. “Contingent Valuation” by Peter Diamond and Jerry Hausman
4. ★“Expected Externalities and Efficiency” by Richard Cornes and Todd Sandler★

References

- “The Value of Risks to Life and Health” by W. Kip Viscusi (complements Diamond and Hausman)
- Long (27-page) executive summary of the “Stern Review on the Economics of Climate Change” (substitutes for the short summary)
- “Incentives and Incomplete Information” by Claude d’Aspremont and Louis André Gérard-Varet (substitutes for Cornes and Sandler)
- “Is There a Role for Benefit-Cost Analysis in Environmental, Health and Safety Regulation?” by Kenneth J. Arrow et al.
- *Using Surveys to Value Public Goods: The Contingent Valuation Method* by R. Cameron Mitchell and Richard T. Carson (substitutes for Diamond and Hausman)
- “Incentives in Teams” by Theodore Groves (substitutes for Varian, Chapter 36)

Week 5: Monopoly

Lecture 9: Basic Monopoly Theory (Tuesday, October 25)

Problem set 3 due at beginning of class

Required

1. Varian, Chapter 24 (Sections 1-5)
2. “Monopoly and Resource Allocation” by Arnold Harberger
3. ★“A Restatement of the Theory of Monopoly” by E. Glen Weyl and Michal Fabinger (Section 3)★
4. “Learning from Seller Experiments in Online Auctions” by Liran Einav et al. (Section 1 and Subsubsection 3.2.1)

References

- “A Restatement of the Theory of Monopoly” by E. Glen Weyl and Michal Fabinger
- “Optimal Pricing Mechanisms with Unknown Demand” by Ilya Segal
- “Teaching the Lerner Rule with Uncertainty” by Michael Salinger

Lecture 10: Price Discrimination (Thursday October 27)

Required

1. Varian, Chapter 25 (Sections 1-6)
2. ★“A Restatement of the Theory of Monopoly” by E. Glen Weyl and Michal Fabinger (Subsection 5.2)★
3. ★ Choose one (or more) of the following three applications to read:★
 - “The Optimal Taxation of Height” by N. Gregory Mankiw and Matthew Weinzierl
 - “The Simple Economics of Optimal Auctions” by Jeremy I. Bulow and John Roberts (Sections I-IV)
 - “Crime and Punishment” by Gary S. Becker (Section IV)

References

- *Nonlinear Pricing* by Robert Wilson (substitutes for Varian)
- “Monopoly Price Discrimination and Demand Curvature” by Iñaki Aguirre et al. (substitutes for Weyl)
- “The Economics of ‘Tagging’ as Applied to Optimal Income Tax, Welfare Programs and Manpower Planning” by George A. Akerlof (substitutes for Mankiew and Weinzierl)
- “Third-Degree Price Discrimination and Consumer Surplus” by Simon George Cowan (substitutes for Weyl)

Week 6: Policy Applications of Monopoly Theory

Lecture 11: Redistribution (Tuesday, November 1)

Required

1. Varian, Chapter 33 (Sections 2-6)
2. Lecture notes on “Optimal Redistribution”
3. “Cardinal Utility in Welfare Economics and in the Theory of Risk-taking” by John C. Harsanyi
4. ★“From Optimal Tax Theory to Practice” by Emmanuel Saez★
5. “The World Top Incomes Database” by Facundo Alvaro et al.

References

- “Subjective Well-Being, Income, Economic Development and Growth” by Daniel W. Sacks et al. (complements Harsanyi)
- *Fairness versus Welfare* by Louis Kaplow and Steve Shavell (substitutes for Harsanyi)
- *Measuring Inequality* by Frank A. Cowell (substitutes for Alvaro et al.)
- “A General Formula for the Optimal Level of Social Insurance” by Raj Chetty
- “The Case for Progressive Taxation” by Peter Diamond and Emmanuel Saez (substitutes for Saez)
- “Incorporating Preference Heterogeneity into Optimal Income Tax Models” by Matthew Weinzierl
- “On the Undesirability of Commodity Taxation even when Income Taxation is not Optimal” by Louis Kaplow

Midterm Exam (4:30-6pm in SS122, November 1)

Lecture 12: Regulation (Thursday, November 3)

Required

1. Varian, Chapters 24 (Section 6), 25 (Section 7), 26 (Sections 1-2), 35 (Section 3) and 37 (Sections 1-3)
2. “Theory of Natural Monopoly” by W. Kip Viscusi et al.
3. ★“Selection in Insurance Markets” by Liran Einav and Amy Finkelstein★

References

- *A Theory of Incentives in Procurement and Regulation* by Jean-Jacques Laffont and Jean Tirole, Chapter 1 (substitutes for Viscusi et al.)
- “The Economic Effect of Regulation” by Paul L. Joskow and Nancy L. Rose

Week 7: Products

Lecture 13: Intellectual Property and New Products (Tuesday, November 8)

Problem set 4 due at the beginning of lecture

Required

1. Varian, Chapters 23 (Section 9) and 24 (Section 7)
2. “The Process of Creative Destruction” by Joseph Schumpeter
3. ★“Crime and Punishment” by Gary S. Becker; focus on Sections I, II, VII and VIII★
4. Lecture notes on “Intellectual Property”

References

- “Market Power Screens Willingness-to-Pay” by E. Glen Weyl and Jean Tirole (substitutes for lecture notes and complements Schumpeter)
- “Intellectual Property” by Nancy Gallini and Suzanne Scotchmer (complements lecture notes)
- *Capitalism, Socialism and Democracy* by Joseph Schumpeter (substitutes for Schumpeter)
- “Creating Markets for New Vaccines. Parts I and II” by Michael Kremer (complements lecture notes and Schumpeter)
- “The Patent-Antitrust Intersection” by Louis Kaplow
- “Optimal Patent Breadth and Length” by Richard Gilbert and Carl Shapiro (also substitutes for lecture notes)
- “Patent Buyouts” by Michael Kremer

Lecture 14: Product Design (Thursday, November 10)

Required

1. Varian, Chapters 25 (Sections 8-10) and 35 (Section 3)
2. “Monopoly, Quality and Regulation” by A. Michael Spence, Sections 1-3
3. “Electoral Competition” by Torsten Persson and Guido Tabellini
4. “The Economics of Internet Markets” by Jonathan Levin, Section 2
5. ★“Multidimensional Heterogeneity and Platform Design” by André Veiga and E. Glen Weyl, Section 2★

References

- “What Drives Media Slant?” by Matthew Gentzkow and Jesse Shapiro (complements Persson and Tabellini)
- “Contract Pricing in Consumer Credit Markets” by Liran Einav et al. (complements Veiga and Weyl)
- “Multidimensional Heterogeneity and Platform Design” by Andre Veiga and E. Glen Weyl (substitutes for Veiga and Weyl)
- *An Economic Theory of Democracy* by Anthony Downs (substitutes for Persson and Tabellini)
- “The Economic Analysis of Advertising” by Kyle Bagwell (complements Spence)
- “A Rational Theory of the Size of Government” by Allan H. Meltzer and Scott F. Richard (complements Persson and Tabellini)
- “Imperfect Competition in Two-Sided Matching Markets” by Eduardo M. Azevedo

Week 8: Imperfect Competition

Tuesday, November 15: Section leader-led review section, attendance optional

Lecture 15: Oligopoly (Thursday, November 17)

Problem set 5 due at the beginning of lecture

Required

1. Varian, Chapters 27 (except Section 8) and 28 (Section 6)
2. “A Theory of Oligopoly” by George J. Stigler
3. ★“Conjectural Variations” by Dennis W. Carlton and Jeffrey M. Perloff★

References

- “The First-Order Approach to Merger Analysis” by Sonia Jaffe and E. Glen Weyl (substitutes for Varian and Carlton and Perloff)
- “The Economics of Tacit Collusion” by Marc Ivaldi et al. (substitutes for Stigler)
- “Conjectural Variations and Competition Policy” by RBB Economics (substitutes for Carlton and Perloff)
- “Duopoly Models with Consistent Conjectures” by Timothy F. Bresnahan (complements Carlton and Perloff)
- “Multimarket Oligopoly” by Jeremy I. Bulow et al.

Week 9: Competition Policy

Lecture 16: Competition Policy (Tuesday, November 22)

Required

1. Varian, Chapter 27 (Section 8)
2. Lecture notes on “Cournot’s Theorem”
3. “2010 United States Horizontal Merger Guidelines”
4. ★“Concentration Indices and Industry Profitability” by Jean Tirole★

References

- “Traditional Cournot Analysis” by Jean Tirole (substitutes for Varian)
- “Price Theory and Merger Guidelines” by Sonia Jaffe and E. Glen Weyl (complements merger guidelines)
- “Of Unlimited Competition” by A.-Augustin Cournot, Chapter 8 of *Researches into the Mathematical Principles of the Theory of Wealth* (substitutes for Varian)
- “Antitrust Evaluation of Horizontal Mergers” by Joseph Farrell and Carl Shapiro (substitutes for merger guidelines)
- “Entry and Competition in Concentrated Markets” by Timothy Bresnahan and Peter C. Reiss (complements Varian)
- “The Gains from Merger or Collusion in Product-Differentiated Industries” by Jonathan B. Baker and Timothy F. Bresnahan (complements merger guidelines)
- “What Really Matters in Auction Design?” by Paul D. Klemperer (substitutes for lecture notes)
- “Entry in Cournot Markets” by Charles R. Frank (also substitutes for Varian)

Week 10: Public Goods

Lecture 17: Public Goods (Tuesday, November 29)

Problem Set 6 due at beginning of lecture

Required

1. Varian, Chapters 26 (Section 3), 35 (Sections 1-2) and 36 (Sections 1-8)
2. ★“Second-Best Mechanisms”★ and “Large Public Goods” by Jeff Ely
3. ★“The Dual of Duopoly is Complementary Monopoly” by Hugo Sonnenschein★

References

- “Asymmetric Information Bargaining Problems with Many Agents” by George J. Mailath and Andrew Postlewaite (substitutes for Varian Chapter 36 and Ely)
- “The Pure Theory of Public Expenditure” by Paul A. Samuelson (substitutes for Varian, Chapter 36)
- “Concordance Among Holdouts” by Scott Duke Kominers and E. Glen Weyl (substitutes for all readings except Varian, Chapter 36)
- *The Gridlock Economy* by Michael Heller
- *The Affluent Society* by John Kenneth Galbraith
- “Cournot Equilibrium in Factor Markets” by Ted Bergstrom (substitutes for Sonnenschein)

Thursday, December 1: class will meet as a review session, attendance optional