The George Washington University
MA in Applied Economics

Course: Economics 6301 Applied Microeconomic Theory
Section 10 (CRN 68220)
Thompson 308 Wed 3:30 to 6:00 p.m.

INSTRUCTOR
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COURSE DESCRIPTION
The course covers the principal areas of microeconomic theory: consumer demand, decision-making under uncertainty, production and costs, game theory, product markets (both competitive and imperfectly competitive, factor markets, and market failures). The course emphasizes applying theory to microeconomic issues of interest to the private and public sectors. Examples include income inequality, product pricing, technical change, firm behavior, welfare costs of quotas and tariffs, monopoly and resource allocation, and job market signaling. The course emphasizes the application of microeconomic theory to the real world.

PREREQUISITES
All students should have taken intermediate microeconomics and at least one semester of calculus at the undergraduate level. Students should have taken or be enrolled concurrently in Mathematical Methods for Economics (ECON 6300).

TEXTBOOK

I will also use the Nicholson and Snyder text Microeconomic Theory. Basic Principles and Extensions, 11th edition, Cengage Learning 2012. This text overlaps the content of the first text with a mathematical treatment of microeconomics and is a useful companion to the assigned text.

LEARNING OUTCOMES
Students will

- learn to use microeconomic tools such as constrained optimization, equilibrium analysis, and comparative statics to analyze the economic behavior of individual economic decision-makers, such as consumers, workers, business leaders, and public policy makers;
• be able to characterize equilibria in perfectly and imperfectly competitive markets and be able to analyze and explain the effects of government policies on consumer and producer behavior, on social welfare, and on market equilibria;
• learn how to apply the theories of microeconomics to individual, business and public policy issues;
• learn how to identify a research project, conduct a literature review, and present their research on an applied microeconomics topic to class;
• develop the basic economic tools used in specialized field in applied economics.

GRADING
• Homework 10%
• Presentations/Paper 30%
• Quizzes 30%
• Final 30%

Homework For the homework, I encourage you to work in study groups so that you can collaborate on the questions. Please upload the homework to Blackboard. I don’t grade problem sets because I encourage you to work collaboratively on the homework. I will give 3 quizzes during the semester.

Presentations: In addition to the problem sets, there are several articles that cover the material in the chapter and illustrate how microeconomics is applied to the real world. Please see the separate Readings file on Blackboard/in Dropbox for the complete list. I will assign weekly readings from this list. Students will make regular presentations to class based on the assigned readings. You will be graded on the quality of your presentation, including your write up of your presentation, and on the questions that you pose to students when you are not presenting. I will assign a specific student to present the paper to class and expect everyone to have prepared questions about the paper.

Students will also write a short 5- to 10-page paper to be presented in class. Details on the format of this paper will be distributed in class. Students will be graded on the draft and final version of the paper, the presentations, and on how well you answer questions posed by your classmates. All students should ask at least one question on each presentation.

Final exam: The final is cumulative.
Late work: You won’t receive credit for late assignments.
Make-up exams: I generally don’t give make-up exams. Please let me know in advance if you will miss an exam.

BEFORE THE FIRST CLASS

1. Please write a couple of paragraphs telling me why you are enrolled in the MA Applied Economics program, what was your undergraduate major and why you chose it, your career goals, and what you hope to get out of the MA program, and anything else you’d like to tell me about yourself. Please bring a copy to the first class.
2. Install NClass on your Smartphone. See http://www.getnclass.com/

UNIVERSITY POLICY ON RELIGIOUS HOLIDAYS
1. Students should notify faculty during the first week of the semester of their intention to be absent from class on their day(s) of religious observance;
2. Faculty should extend to these students the courtesy of absence without penalty on such occasions, including permission to make up examinations;
3. Faculty who intend to observe a religious holiday should arrange at the beginning of the semester to reschedule missed classes or to make other provisions for their course-related activities.

For GW’s teaching policies, see http://www.gwu.edu/~academic/Teaching/main.htm

ACADEMIC INTEGRITY
I personally support the GW Code of Academic Integrity. It states: “Academic dishonesty is defined as cheating of any kind, including misrepresenting one's own work, taking credit for the work of others without crediting them and without appropriate authorization, and the fabrication of information.” Please note that allowing another student to copy your work is defined as cheating under the Academic Integrity code.

For the remainder of the code, see: http://www.gwu.edu/~ntegrity/code.html

SUPPORT FOR STUDENTS OUTSIDE THE CLASSROOM
DISABILITY SUPPORT SERVICES (DSS)
Any student who may need an accommodation based on the potential impact of a disability should contact the Disability Support Services office at 202-994-8250 in the Marvin Center, Suite 242, to establish eligibility and to coordinate reasonable accommodations. For additional information please refer to: http://gwired.gwu.edu/dss/

UNIVERSITY COUNSELING CENTER (UCC) 202-994-5300
The University Counseling Center (UCC) offers 24/7 assistance and referral to address students' personal, social, career, and study skills problems. Services for students include:
- crisis and emergency mental health consultations
- confidential assessment, counseling services (individual and small group), and referrals
  http://gwired.gwu.edu/counsel/CounselingServices/AcademicSupportServices

SECURITY
In the case of an emergency, if at all possible, the class should shelter in place. If the building that the class is in is affected, follow the evacuation procedures for the building. After evacuation, seek shelter at a predetermined rendezvous location.
ECONOMICS 6301 Intermediate Applied Microeconomics
Homework assignments are due before class on the WEDNESDAY following the week they are assigned. Upload files to Dropbox with your name and assignment, e.g., Weiner Joann PSET 1

PROBLEM SETS and READINGS
9/2 Week 1: Ch 1 Economic Models and Ch 2 Utility and Choice
   Problem set: Ch 1 1.8, 1.10; Ch 2 2.3, 2.4, 2.6, 2.9, 2.10

9/9 Week 2: Ch 3 Demand
   Problem set: Ch 3 3.4, 3.5, 3.8, 3.9

9/16 Week 3: Ch 4 Uncertainty
   Problem Set: Ch 4 4.3, 4.4, 4.9

9/23 Week 4: Ch 4 Uncertainty and Ch 5 Game Theory
   Problem Set: Ch 5 5.5, 5.7, 5.10;

9/30 Week 5: QUIZ 1 Ch 1-5

10/7 Week 6: Ch 6 Production; Ch 7 Costs
   Problem Set: Ch 6 6.3, 6.5, 6.8, 6.10, Ch 7 7.2, 7.6, 7.8

10/14 Week 7: Ch 8 Profit Maximization and Supply
   Problem Set: Ch 8 8.2, 8.6, 8.8

10/21 Week 8: QUIZ 2 CH. 6-8

10/28 Week 9: Ch 9 Perfect Competition and Ch 10 General Equilibrium and Welfare
   Problem Set: Ch 9 9.2, 9.4, 9.7, 9.10; Ch 10 10.6, 10.9

11/4 Week 10: Ch 11 Monopoly
   Problem Set: Ch 11 11.2, 11.7, 11.8

11/11 Week 11: QUIZ 3 Ch 9-11

11/11 Week 11: Ch 12 Imperfect Competition
   Problem Set: Ch 12 12.1, 12.3, 12.9

11/18 Week 12: Ch 13 Input Markets and Ch 14 Capital and Time
   Problem Set: Ch 13 13.2, 13.4, 13.10; Ch 14 14.2, 14.8

11/23 Week 13: No CLASS THANKSGIVING

11/30 Week 14: Ch 15 Asymmetric information and Ch 17 Behavioral Economics
   Problem Set: Ch 15 15.2, 15.6; Ch 17 17.6
Student presentations will take place during the last two weeks of class.
READING ASSIGNMENTS

Students should read each of the articles below. I will assign one student to present one of the papers to class; everyone else should be prepared to ask questions about the paper. For those who are interested in exploring a particular issue in depth, the Dropbox folder has a document that lists a number of papers that relate to each subject. The folder also has copies of most of the articles listed below. Students have access to the articles through JSTOR. I may substitute for these articles, depending on the interest of the class.

CHAPTER 1. Economic models
Daron Acemoglu, “Technical Change, Inequality, and the Labor Market,”
Journal of Economic Literature Vol. 40, No. 1 (Mar., 2002), pp. 7-72

Review by: Daron Acemoglu, David Autor Journal of Economic Literature,
Vol. 50, No. 2 (June 2012), pp. 426-463

CHAPTER 2 Utility and Choice
Paying Not to Go to the Gym
S. DellaVigna and U. Malmedier

Introducing Nonlinear Pricing into Consumer Choice Theory
Joseph S. DeSalvo and Mobinul Huq
The Journal of Economic Education
Vol. 33, No. 2 (Spring, 2002), pp. 166-179

CHAPTER 3 Demand Curves
Consumer's Surplus Without Apology
Robert D. Willig
The American Economic Review
Vol. 66, No. 4 (Sep., 1976), pp. 589-597

Predicting the Quality and Prices of Bordeaux Wine
Orley Ashenfelter
The Economic Journal
Vol. 118, No. 529, Features (Jun., 2008), pp. F174-F184

What is the Price Elasticity of Housing Demand?
Eric A. Hanushek and John M. Quigley
The Review of Economics and Statistics
CHAPTER 4 Uncertainty


The U.S. Equity Return Premium: Past, Present, and Future
J. Bradford DeLong and Konstantin Magin
The Journal of Economic Perspectives
Vol. 23, No. 1 (Winter, 2009), pp. 193-208

Herd Behavior and Investment
David S. Scharfstein and Jeremy C. Stein
The American Economic Review
Vol. 80, No. 3 (Jun., 1990), pp. 465-479

CHAPTER 5 Game Theory
To Bargain or Not To Bargain: That Is The Question
Harvey E. Lapan and Todd Sandler
The American Economic Review

Crime and Punishment: An Economic Approach
Gary S. Becker
Journal of Political Economy

CHAPTER 6 Production
The Engineering Approach to Economic Production Functions Revisited: An Application To Solar Processes

G. Thomas Sav
The Journal of Industrial Economics
Vol. 33, No. 1 (Sep., 1984), pp. 21-35

A Retrospective Look at the U.S. Productivity Growth Resurgence
Dale W. Jorgenson, Mun S. Ho and Kevin J. Stiroh
The Journal of Economic Perspectives
Vol. 22, No. 1 (Winter, 2008), pp. 3-24
CHAPTER 7 Costs
Optimal Scale and the Size Distribution of American Trucking Firms
Roger Koenker
*Journal of Transport Economics and Policy*
Vol. 11, No. 1 (Jan., 1977), pp. 54-67

Decomposing Productivity Growth in the U.S. Computer Industry
Hyunbae Chun and M. Ishaq Nadiri
*The Review of Economics and Statistics*
Vol. 90, No. 1 (Feb., 2008), pp. 174-180

CHAPTER 8 The Nature of the Firm
The Nature of the Firm: Origin
R. H. Coase
*Journal of Law, Economics, & Organization*
Vol. 4, No. 1 (Spring, 1988), pp. 3-17

U.S. Industry Adjustment to Economic Deregulation
Clifford Winston
*The Journal of Economic Perspectives*
Vol. 12, No. 3 (Summer, 1998), pp. 89-110

CHAPTER 9 Perfect Competition
Welfare Costs of U.S. Quotas in Textiles, Steel and Autos
Jaime de Melo and David Tarr
*The Review of Economics and Statistics*
Vol. 72, No. 3 (Aug., 1990), pp. 489-497

Oil Supply and Tax Incentives
Edward W. Erickson, Stephen W. Millsaps and Robert M. Spann
*Brookings Papers on Economic Activity*

CHAPTER 10 General Equilibrium and Welfare
Applied General-Equilibrium Models of Taxation and International Trade: An Introduction and Survey
John B. Shoven and John Whalley
*Journal of Economic Literature*
Vol. 22, No. 3 (Sep., 1984), pp. 1007-1051

Policy Watch: Trade Adjustment Assistance
Katherine Baicker and M. Marit Rehavi
*The Journal of Economic Perspectives*
Vol. 18, No. 2 (Spring, 2004), pp. 239-255
An Evaluation of the Performance of Applied General Equilibrium Models of the Impact of NAFTA
Timothy J. Kehoe, University of Minnesota and Federal Reserve Bank of Minneapolis, 2003,
Staff Report 320

CHAPTER 11 Monopoly
The Social Costs of Monopoly and Regulation
Richard A. Posner
*Journal of Political Economy*

A Disneyland Dilemma: Two-Part Tariffs for a Mickey Mouse Monopoly
Walter Y. Oi
*The Quarterly Journal of Economics*
Vol. 85, No. 1 (Feb., 1971), pp. 77-96

CHAPTER 12 Imperfect Competition
The Lerner Index of Monopoly Power: Origins and Uses
Kenneth G. Elzinga and David E. Mills
*The American Economic Review*
Vol. 101, No. 3, Papers And Proceedings Of The One Hundred Twenty Third Annual Meeting
Of The American Economic Association (May 2011), pp. 558-564

CHAPTER 13 Pricing in Input Markets
Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and
Pennsylvania
David Card and Alan B. Krueger
*The American Economic Review*
Vol. 84, No. 4 (Sep., 1994), pp. 772-793

Revisiting the Minimum Wage-Employment Debate: Throwing Out the Baby with the
Bathwater?
David Neumark, J.M. Ian Salas, William Wascher
NBER Working Paper No. 18681
Issued in January 2013

Hybrid Corn: An Exploration in the Economics of Technological Change
Zvi Griliches
*Econometrica*
Vol. 25, No. 4 (Oct., 1957), pp. 501-522
CHAPTER 14 Market Power
Investment Tax Incentives, Prices, and the Supply of Capital Goods
Austan Goolsbee
The Quarterly Journal of Economics
Vol. 113, No. 1 (Feb., 1998), pp. 121-148

Tax Policy and Investment Behavior
Robert E. Hall and Dale W. Jorgenson
The American Economic Review
Vol. 57, No. 3 (Jun., 1967), pp. 391-414

CHAPTER 15 Asymmetric Information
The Market for "Lemons": Quality Uncertainty and the Market Mechanism
George A. Akerlof
The Quarterly Journal of Economics
Vol. 84, No. 3 (Aug., 1970), pp. 488-500

Job Market Signaling
Michael Spence
The Quarterly Journal of Economics
Vol. 87, No. 3 (Aug., 1973), pp. 355-374

CHAPTER 16 Externalities and Public Goods
The Fable of the Bees: An Economic Investigation
Steven N. S. Cheung
Journal of Law and Economics
Vol. 16, No. 1 (Apr., 1973), pp. 11-33

CHAPTER 17 Behavioral Economics
Prospect Theory: An Analysis of Decision under Risk
Daniel Kahneman and Amos Tversky
Econometrica
Vol. 47, No. 2 (Mar., 1979), pp. 263-292

Monty Hall's Three Doors: Construction and Deconstruction of a Choice Anomaly
Daniel Friedman
The American Economic Review
Vol. 88, No. 4 (Sep., 1998), pp. 933-946
Guidelines for Presentation and paper

The goal of the presentation and accompanying paper is for you to apply the tools you have developed in the applied microeconomics class to address an economic question of your choosing. The readings, both those that have been assigned and those that are listed in the reading list, provide good examples of how to apply micro theory to an economic issue. Doing this exercise will help you develop the skills to identify a research question, analyze the theory that addresses the question, describe the data that you would use to answer your question. (A full paper would also conduct an econometric analysis of the data, but that exercise is left to your econometrics course).

Papers should be well-written and be no longer than 8 pages (with normal margins and type face), excluding references. You must provide your research question to me no later than November 11. Presentations will take place in class on December 2. You should submit a first draft in the week of November 23 and a final paper no later than December 12. I will grade your papers on how well they are written and how clearly they evaluate the question you are addressing, and I will grade your presentations on how well you answer questions posed from your classmates. Please follow the guidelines in The Journal of Economic Perspectives for preparing your tables, charts, and references. See the paper on “Technological Change and Inequality” from the Journal of Economic Literature (JEL) for an example (from Reading assignment #1). The JEL, EconLit and JSTOR are good sources. Read the abstracts of the papers to see whether the research is relevant to your question.

Your applied research paper should have the following sections:

1. An introduction that presents your question and why this question is important. It should be explicit and be narrowly-focused so that you can address it in the page limit given for this assignment. Many of the applications in the textbook provide examples of such questions. You may wish to summarize the key findings of your paper in the introductory section.
2. The paper should provide a brief literature review/discussion of previous work of relevant papers on the topic. Discuss how your paper extends this body of knowledge.
3. Your paper should include charts and tables that summarize the data and present the question that you are addressing.
4. The paper should describe the theory that will be applied to the question. This section would also identify the data that would be used in an empirical analysis. Rather than a formal theory, this section could also discuss the variables that would be included in your model to answer your question. This section should include a few equations that illustrate your theory or model.
5. Since you are not doing your own empirical research at this point, your paper should discuss how the current theory and literature helps frame your question and, if possible, should identify the data that would be needed to test the theory. (If you were doing your own empirical research, you would describe your data and then conduct an econometric analysis).
6. The paper should have a brief conclusion that summarizes what you have learned and areas for future research.
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