

PBU 1602: Microeconomic Theory and Empirical Analysis

Professor: Michael Quinn
Office: Adamian 175
E-Mail: mquinn@bentley.edu
Office Phone: (781) 891-2938

Course Prerequisites

It is assumed that you have some knowledge of microeconomics. If it has been several years since you have taken microeconomics, it is strongly suggested you refresh your knowledge by covering the main concepts of a microeconomics textbook. It is also assumed that students have successfully completed PhD Bentley Statistics course, or its equivalent, and therefore have a strong foundation in multiple regression analysis.

Course Goals

In this course we will examine some of the most important tools used by economists to analyze consumers, firms and markets. We will begin with a brief overview of the foundational mathematics and econometrics needed for the course. The overview will be followed by an introduction to neo-classical price theory, which focuses on price and output determination founded in consumer and producer theory. We will examine different market structures, and then move on to various informational asymmetries in markets; specifically, moral hazards and adverse selection issues. The primary goal of each topic is to study economic theories and literature. The literature will expose you to a wide range of applications of economic theory. The intended outcome is to provide student with a set of knowledge and skills that can be used to read and interpret economic research which hopefully will assist in dissertation research.

Learning Objectives

Knowledge

- Utility functions and budget constraints - consumer responses to changes in prices and budgets.
- Isoquant and isocost analysis – how market conditions impact firms' production and input choice decisions.
- Returns to Scale and different cost industries – the relationship between production and costs.
- Welfare, market failures and externalities.
- Market Structures – perfect competition, monopolistic competition, oligopoly, monopoly. This includes firm decisions regarding pricing and production.

Skills

- Further develop one's graphical and other analytical skills/methods as applied to problem-solving in the context of economic theory
- Develop the ability to creatively apply analytical tools
- Learn to critically examine and develop a logical approach to solving problems.

Perspectives

- Have a greater appreciation of the ways that firms and consumers make decisions.
- Viewing optimal decision-making from an incremental (marginal) perspective.

Required Text

Walter Nicholson and Christopher Snyder. Intermediate Microeconomics and its Application. 11th edition, South-Western Cengage Learning. 2010.

Journal Articles

Academic journal articles are posted on Blackboard. They correspond with the text content as listed in the course outline. Students are responsible for discussing the journal articles and they will also be included on the exams. Due dates for the journal articles are listed in the course outline. The purpose of these articles is to familiarize the student with the application of microeconomic theory to different research questions. When reading the articles you should focus on how economics is framing the research question and trying to solve it. Economics is a way of approaching problems and understanding this approach can be useful in many different fields.

Paper

There is a major research paper due at the end of the course. The paper must center on some economic concept, topic or method. I will meet individually with each student in the first week of class to discuss your doctoral focus/interests and how an economics paper might be related or useful to them. Also, this meeting will be generally useful to bounce paper ideas around so you can get started on it earlier.

Exams and Grades

There will be a midterm and final exam which will cover the material from class and journal articles. The midterm counts for 25%, final exam 30%, paper 35% and participation for 10%.

Academic Honesty Statement

In pursuit of the stated course goals and learning outcomes, I expect that all students abide by Bentley University's Honor Code. Violations of the Honor Code will not be tolerated and dealt with as outlined in the Bentley College Student Handbook. The Honor Code is accessible online at <http://ecampus.bentley.edu/shandbook/pdf/SH51-53.pdf>. (To download and read this document online you must have [Adobe Reader®](#).) If you have questions about the Honor Code, please contact me. Continued enrollment in this course constitutes a formal agreement to abide by the Bentley University Honor Code.

Other Important Information

Bentley University abides by Section 504 of the Rehabilitation Act of 1973 and the Americans with Disabilities Act of 1990 which stipulate no students shall be denied the benefits of an education solely by reason of a disability. Disabilities covered by law include, but are not limited to, learning disabilities, visual, hearing, and mobility impairments, medical conditions, psychiatric disorders, and temporary disabilities. If you have a documented disability that may have some impact on your work in this course and for which you may require academic accommodations, please speak with Disability Services, in LaCava 166 so that such accommodations may be arranged.

Course outline:

Part 1: Introduction and Review

- Ch.1 Economic Models.
- Ch.1 Appendix. Math used in Economics.

Part 2: The Theory of Consumer Behavior

- Ch.2 Utility and Choice.
- Ch.3 Demand Curves.
- Ch.4 Decision Making under Uncertainty

Articles:

Bishai, D., et al. "Willingness to Pay for Drug Rehabilitation: Implications for Cost Recovery." *Journal of Health Economics*, 2008, 27: 959-972.

Goel, R.K. and M.J. Morey. "The Interdependence of Cigarette and Liquor Demand." *Southern Economic Journal*, October 1995, pp. 451-459.

Kostova, Deliana; Ross, Hana; Blecher, Evan; Markowitz, Sara. "Prices and Cigarette Demand: Evidence from Youth Tobacco Use in Developing Countries." 2010, *NBER Working Papers*.

Markowitz, Sara; Tauras, John. "Substance Use among Adolescent Students with Consideration of Budget Constraints." *Review of Economics of the Household*, Dec 2009, v. 7, iss. 4, pp. 423-46.

Roy, S. "Are Illegal Drugs Inferior Goods in the U.S.?" *Atlantic Economic Journal*, 2007, 35: 303-314.

Part 3: The Theory of the Firm

- Ch.5 Introduction to Game Theory.
- Ch.6 Production.
- Ch.7 Costs.,
- Ch.8 Profit Maximization and Supply.

Articles:

Margono, Heru; Sharma, Subhash C.II; Melvin, Paul D. "Cost Efficiency, Economies of Scale, Technological Progress and Productivity in Indonesian Banks." *Journal of Asian Economics*, February 2010, v. 21, iss. 1, pp. 53-65.

Mugera, A.W. and A.M. Featherstone. "Backyard Hog Production Efficiency: Evidence from the Philippines." *Asian Economic Journal*, 2008, 22, 267-287.

Truett, Lila J.; Truett, Dale B. "Firm Size and Efficiency in the South African Motor Vehicle Industry." *Australian Economic Papers*, December 2009, v. 48, iss. 4, pp. 333-41.

Midterm Exam

Part 4: Market Structure

- Ch.9 Perfect Competition.
- Ch.11 Monopoly.
- Ch.12 Imperfect Competition.

Articles:

Baye, M., Morgan, J., & Scholten, P. "Price Dispersion in the Small and in the Large: Evidence from an Internet Price Comparison Site." *The Journal of Industrial Economics*, 2004, 52: 463-496.

Choi, J.H., Kim, J.B., Liu, X., and Simunic, D.A. "Audit Pricing, Legal Liability Regimes, and Big 4 Premiums: Theory and Cross-Country Evidence." *Contemporary Accounting Research*. 2008. v.25, iss.3, pp.55-99.

Brenner, Steffen. "An Empirical Study of the European Corporate Leniency Program." *International Journal of Industrial Organization*, 2009, v.27, pp.639-645.

Hastings, Justine S. "Vertical Relationships and Competition in Retail Gasoline Markets: Empirical Evidence from Contract Changes in Southern California." *American Economic Review*, March 2004, v. 94, iss. 1, pp. 317-28.

-Taylor, Christopher T.; Kreisle, Nicholas M.; Zimmerman, Paul R. "Vertical Relationships and Competition in Retail Gasoline Markets: Empirical Evidence from Contract Changes in Southern California: Comment." *American Economic Review*, June 2010, v. 100, iss. 3, pp. 1269-76.

-Hastings, Justine. "Vertical Relationships and Competition in Retail Gasoline Markets: Empirical Evidence from Contract Changes in Southern California: Reply." *American Economic Review*, June 2010, v. 100, iss. 3, pp. 1277-79.

Stewart, H. and Davis, D. "Price Dispersion and Accessibility: A Case Study of Fast Food." *Southern Economic Journal*, 2005, 71: 784-799.

Part 5: Input Markets

- Ch. 13 Pricing in Input Markets.

Article: Leeth, J. and J. Ruser. "Compensating Wage Differentials for Fatal and Nonfatal Injury Risk by Gender and Race." *The Journal of Risk and Uncertainty*, 2003, 27: 257-277.

Part 6: Information, Market Failure and the Role of Government

- Ch.14 Capital and Time
- Ch.15 Asymmetric Information.

Ch.16 Externalities and Public Goods.
Ch.17 Behavioral Economics.

Articles:

Milgrom , Paul. "What the Seller Won't Tell You: Persuasion and Disclosure in Markets" *Journal of Economic Perspectives*, Spring 2008, v.22, no.2, pp.115-131.

Livingston, J. "How Valuable is a Good Reputation? A Sample Selection Model of Internet Auctions." *Review of Economics and Statistics*, 2005, v.87, no.3, pp.453-465.

Gayle, George-Levi; Miller, Robert A. "Has Moral Hazard Become a More Important Factor in Managerial Compensation?" *American Economic Review*, December 2009, v. 99, iss. 5, pp. 1740-69

Livingston, J. and M. Quinn. The Psychology of Decision Making in Economics: A Review." published in *The Psychology of Decision Making*, 2009, Nova Publishing.

Final Exam.