

# ECON4010 Advanced Topics in Microeconomics

Fall 2018

Department of Economics  
Chinese University of Hong Kong

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Lectures: Fri 8:30 to 11:15 at YIA402

Office Hours: Fri 16:00 to 17:00

TA: Mr. NI Shengqi

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Tutorial: TBA

TA Office Hour: Fri 11:30 to 12:30

## Course Description

This course covers several advanced topics in microeconomic theory. The main focus is the economics of uncertainty and information. We begin with the theory of choice under uncertainty, where the main goal is to gain a good understanding of the expected utility theory and the concept of risk aversion. Then, we review the most commonly used solution concepts in noncooperative game theory, which serve as the analytical tools for the rest of the course. The most important part of the course is the study of various models with asymmetric information, including adverse selection, signaling, screening, and the principal-agent problem. Finally, if time allows, we give an elementary introduction to the theory of stable matching and market design. In order to do well in this course, the students should be familiar with calculus, elementary optimization techniques and basic probability theory.

## Learning Outcomes

After completing this course, the students are expected to:

1. Acquire advanced knowledge in various topics in microeconomics;
2. Develop skills in theoretical modeling and analysis;
3. Obtain preparations for conducting independent research in microeconomics.

## Recommended Textbooks

There is no required textbook for this course. My lecture is mainly based on the following books and related journal articles.

1. A. Mas-Colell, M. Whinston and J. Green, *Microeconomic theory*, Oxford University Press, 1995.
2. G. Jehle and P. Reny, *Advanced microeconomic theory*, 3<sup>rd</sup> edition, Prentice Hall, 2011
3. M. Osborne and A. Rubinstein, *A course in game theory*, MIT, 1994.
4. A. Roth and M. Sotomayor, *Two-sided matching*, Cambridge, 1990.

## Problem Sets:

The problem sets are essential adjunct to the lecture material. Students are expected to work on them independently and to attend the tutorial session, during which the TA will go over all the questions and review related class materials.

## Assessment Scheme

The grade will be determined by the assignments (10%), a midterm exam (40%) and a comprehensive final exam (50%). The assignment of grades will follow the following descriptors.

Grade	Descriptor
A	Truly outstanding performance, able to apply knowledge to novel situations/problems
A-	Thorough understanding of taught concepts, steady accumulation of knowledge and skills throughout the course
B+/B/B-	Satisfactory grasp of key concepts, consistent involvement in learning activities
C+/C/C-	Fair understanding of key concepts
D+/D	Some misunderstanding of key concepts, inconsistent efforts observed
F	Unsatisfactory performance, poor understanding of subject matter, poor efforts

Grading is done on an absolute basis in accordance with the above reference criteria, not on the basis of the distribution of marks (which is sometimes known as grading on a curve).

## Exam Schedule

The midterm exam will be held in class on **Oct. 26, 2018**. There is **NO** make-up exam. For those who miss the midterm exam due to medical reasons, they need to present an official Doctor's note and the weight of the midterm exam will be transferred to the final exam. The final exam is centrally scheduled, and specific date and time will not be announced until November. Please note that we cannot arrange a make-up final exam to accommodate your travel plans.

## Academic Honesty

Attention is drawn to University policy and regulations on honesty in academic work, and to the disciplinary guidelines and procedures applicable to breaches of such policy and regulations. Details may be found at <http://www.cuhk.edu.hk/policy/academichonesty/>

## Course Outline

### 1. Choice under Uncertainty

Expected Utility Theory, Risk Aversion, First-Order and Second-Order Stochastic Dominance

### 2. Game Theory

Strategic Games: Dominance, Nash Equilibrium, Bayesian Nash Equilibrium;

Extensive Games: Backward Induction, Subgame Perfect Equilibrium, Sequential Equilibrium

### 3. Markets with Asymmetric Information

Information Asymmetry and Adverse Selection in Market for Lemons, Signaling in Job Market, Screening in Insurance Market;

Principal-Agent Problem: Hidden Action and Moral Hazard, Hidden Information and Monopolistic Screening

### 4. Matching and Market Design

Two-Sided Matching: Marriage Market, Pairwise Stability, Deferred Acceptance Algorithm;

One-Sided Matching: House Allocation, Serial Dictatorship, Housing Market, Top Trading Cycle