PPHA 32400: Microeconomics and Public Policy II
Winter 2020

**Instructors:**

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If you send an e-mail, please have the prefix PP32400 in the Subject line.

**Teaching assistants:**

Maria Adelaida (Head TA, [mariaadelaidamc@uchicago.edu](mailto:mariaadelaidamc@uchicago.edu))
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**Sections:**

- **Section 1 (Sonin):** MW 9:30-10:50AM
- **Section 2 (Sonin):** MW 11:00-12:20PM
- **Section 3 (Sonin):** MW 2:00-3:20PM
- **Section 4 (Gitmez):** TuTh 9:30-10:50AM
- **Section 5 (Gitmez):** TuTh 2:00-3:20PM

**Discussion Sections:**

- **Section 1:** M 2:00-3:20PM
- **Section 2:** Tu 3:30-4:50PM
- **Section 3:** M 3:30-4:50PM
- **Section 4:** W 5-6:20PM
- **Section 5:** M 5:00-6:20PM
Course Description:
This course is the second part of the microeconomic theory sequence that started with PPHA32300. We will cover monopolistic markets, markets with externalities, and the role of government regulation when the market fails. Also, the course introduces such concepts as intertemporal choice and attitude toward risk, which are critical in policy analysis. The more advanced topics include models of information asymmetry such as adverse selection and moral hazard.

Prerequisites:
PPHA32300 or instructor’s permission. You should be comfortable with basic algebra and calculus.

Textbooks:
The main textbook for this class is
(GLS) Austan Goolsbee, Steven Levitt, and Chad Syverson, Microeconomics, 2nd ed.

However, the material of this course is classic and is covered in several excellent textbooks. Feel free to use the following two.

(P) Jeffrey Perloff. Microeconomics, 8th ed.

The advantage of Goolsbee-Levitt-Syverson and Perloff is that they both have a lot of real-world examples. Varian is a bare-bones theory textbook. Be careful (but not discouraged) if you use older versions of the textbooks -- chapters, examples, and exercises may vary.

Course materials:
Please see the Canvas website for course slides, documents, assignments, and announcements.

TA Sessions and Office Hours:
TAs will hold weekly sessions, which will last for one hour. (The first session will be in the second week.) In sessions, TAs will explain problem sets and demonstrate how to work with sample exercises. In addition, TAs will hold office hours each week. Use this office hour to ask questions that were not discussed in class or TA sessions.

Attendance:
You are expected to attend and participate in every class. If necessary, you may attend other sections of the class without asking for permission. Still, we recommend attending the same section as much as possible.

Slides:
Before each lecture, preliminary slides will be posted on Canvas. After the lecture, actual slides will be posted.

Problem Sets:
There will be four problem sets. You may discuss problems with each other, but you must turn in your own work.

Home assignments will be due in class on the week of January 20, February 3, February 17, and March 2. Please
turn in a hard copy of your work and staple together multiple pages. You are strongly advised to use a formulae-processing software instead of hand-writing.

TAs will grade the problem sets on a scale of 1 to 100. Late home assignments will be heavily discounted.

Policy Memo:
You will complete one policy memo. It will not require any significant outside research; the emphasis is on clarity and high-quality writing. The memo will be a maximum of 2 pages (3,400 characters). However, this is a maximum rather than the target: there is no premium for length. The memo will be due on the week of February 24.

Exams:
We will have a midterm exam in class on the week of February 10 and the two-hour final exam on TBA. The exams will be open-book: you will be able to use a textbook, lecture slides, and your notes.

Grades:
Your course grade will consist of the following weights:

- Problem sets and policy memo 25%,
- Midterm exam 25%,
- Final exam 50%.

Please direct any re-grade requests to us, not the TAs, by submitting your work and a brief explanation of your argument. Your grade may go up or down as a result.

Additional readings:
Occasionally, we will post additional readings, both academic and policy-related, on Canvas. You might read (or not read) them to get a better understanding of how concepts we discuss in class apply in policy analysis and public discourse.
Course Plan:

Lecture 1 (M 01/06-Tu 01/07):
- Logistics, Requirements, etc.
- Monopoly (GLS 9.1, P 11, V 24)
- Market Power and Elasticity (GLS 9.2-4, P 11, V 24)
- Deadweight Loss (GLS 9.5, P 11, V 24)

Lecture 2 (W 01/08-Th 01/09):
- Regulating a Monopoly (GLS 9.6, P 11.6, V 24.6)
- Natural Monopoly (GLS 9.1, P11.4, V 24.6)

Lecture 3 (M 01/13-Tu 01/14):
- Price Discrimination (GLS 10.1, P 12, V 25)
- Types of Price Discrimination (GLS 10.2-4, P 12, V 25)

Lecture 4 (W 01/15-Th 01/16):
- Two-Part Tariff (GLS 10.6, P 12.5, V 25.6)
- Bundling (GLS 10.5, P 12.6, V 25.5)

No Class: Martin Luther King, Jr. Day (M 01/20)

Lecture 5 (Tu 01/21-W 01/22):
- Factor Markets (GLS 13.1-7, P 15, V 26)

Lecture 6 (Th 01/23- M 01/27):
- Strategic Analysis: Simultaneous Games (GLS 12.1-2, P 14, V 28)

Lecture 7 (Tu 01/28-W 01/29):
- Cournot Oligopoly (GLS 11.1-2, 4, P 13, V 27)
- Bertrand Oligopoly (GLS 11.3, P 13, V 27)

Lecture 8 (Th 01/20-M 02/03):
- Strategic Analysis: Sequential Games (GLS 12.4-5, P 14, V 28)
- Entry Deterrence (GLS 12.5, V28.8, P14.3)
- Stackelberg Oligopoly (GLS 11.5, P 13, V 27)

Lecture 9 (Tu 02/04-W 02/05):
- Cartels (GLS 11.2, P 13.2, V 27.10-11)
- Sustaining a Cartel (GLS 12.3, V 28.6)

Th 02/06 will be dedicated to a review lecture.

Mid-term (M 02/10-Tu 02/11)
Lecture 10 (W 02/12-Th 02/13):
- Monopolistic Competition (GLS 11.7, P 13, V 25.7)
- Product Differentiation (GLS 11.6, P 13, V 25.8-10)

Lecture 11 (M 02/17-Tu 02/18):
- Externalities (GLS 17.1-2, P 18, V 34)
- Public Goods (GLS 17.4, P 18, V 36)

Lecture 12 (W 02/19-Th 02/20):
- Coase Theorem (GLS 17.2, P 18, V 34)

Lecture 13 (M 02/24-Tu 02/25):
- Intertemporal Choice (GLS 14.1, P 16.1-2, V 10)
- Evaluating Investment (GLS 14.2, P 16.4)

Lecture 14 (W 02/26-Th 02/27):
- Defining Risk: Variance and Standard Deviation (GLS 14.4-5, P 17, V 12-13)
- Expected Value and Expected Utility (GLS 14.5, P 17, V 12-13)

Lecture 15 (M 03/02-Tu 03/03):
- Diversification and Risk (GLS 14.5, P 17, V 12-13)
- Insurance (GLS 14.5, P 17, V 12)

Lecture 16 (W 03/04-Th 03/05):
- Adverse Selection (GLS 16.1, P 19, V 37)
- Signaling and Screening (GLS 16.4, P 19, V 37)

Lecture 17 (M 03/09-Tu 03/10):
- Moral Hazard (GLS 16.3, P 20, V 37)

Lecture 18 (W 03/11-Th 03/12):
- Auctions (P 14.4)
- Mechanism Design (P 18, V 36)

Final Exam (TBA)