Syllabus for Economics 201B
First Half
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Course Overview

The first half of Economics 201B will be devoted to the following topics:

- Pricing
- Mechanism Design
- Agency Theory
- Auction Theory
- Externalities

If time permits, other topics may be covered.

Basic Information

Time and Place: Tuesdays and Thursdays, 9:30–11, in 247 Cory Hall.

Course Website: http://faculty.haas.berkeley.edu/hermalin/econ201b.html

Readings: It is expected that students have access to Microeconomic Theory by Andreu Mas-Colell, Michael Whinston, and Jerry Green, Oxford: Oxford University Press, 1995 (hereafter MWG). In addition, there will be readings available on the web, either on the course website or on JSTOR.

Contact Information: Ben Hermalin’s contact information —

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- Office Hours: Mondays 9:30–10:30 and by appointment

Exam: There will be an in-class exam on March 13, 2003. This will be the only exam for this half of the course and will fully determine your grade for this half.
Topic Overview and Readings

Pricing
This section of the course concerns pricing by a seller with market power who does not face strategic considerations vis-à-vis competitive rivals (e.g., a monopolist).

Topics
- Review of the use of consumer surplus as a measure of consumer welfare.
- Linear pricing and its welfare implications.
- First-degree price discrimination and two-part tariffs.
- Second-degree price discrimination.
- Third-degree price discrimination.
- Bundling.

Readings
The main reading is “A Primer on Pricing,” which can be downloaded from the course website. In addition, students should read Sections 3.I and 12.B of MWG. A substitute for Section 3.I is Chapter 10 of Hal Varian’s Microeconomic Analysis.

Mechanism Design
This part of the course covers the basics of mechanism design (screening). It also considers implementation problems.

Topics
- The discrete (two-type) screening model
- The continuous-type screening model
- Groves mechanisms
- Bayesian mechanisms
- Applications
Readings
The reading for the first half of this section is “Hidden-Information Agency” by B. Caillaud and B. Hermalin. Students should read Sections 1–3, 5 (through 5.5), and 6 carefully. Section 4 should be at least skimmed. Section 5.6 may be omitted. In addition, for this half, students should read Section 14.C of MWG.

For the second half, students should read Chapter 23 of MWG. In addition, read “Notes on Bayesian Mechanism,” which can be downloaded from the course website.

Agency Theory
This part of the course addresses hidden-action agency problems (moral hazard).

Readings
Students should read “Hidden Action and Incentives” by B. Caillaud and B. Hermalin, which can be downloaded from the course web page. In addition, students may wish to consult Section 14.B of MWG.

Auction Theory
This part of the course will cover the basics of auction theory.

Topics
• sealed-auctions (first and second-price)
• English and Dutch auctions
• private-value auctions and revenue equivalence
• common-value auctions and the winner’s curse

Readings
To be announced.

Externalities
This section covers some basic externality problems and their resolution.

Topics
• positive and negative externalities
• taxes and the theory of the second best
• provision of public goods, teams problems, and free-riding
Readings

Chapter 11 of MWG plus readings to be announced.