This second course in the graduate microeconomics sequence leans heavily on the first. The competitive equilibrium provides a benchmark, and welfare economics provides a normative methodology. We extend the discussion of an idealized economy of utility maximizing consumers and profit maximizing producers to consider cases of market failure.

Situations where the market fails to achieve Pareto efficiency provide a rationale for government intervention. Market power is a classic failure. The competitive equilibrium differs from that of monopoly or oligopoly. (The latter case motivates a digression into game theory.) Other failures are associated with public goods, environmental damages, and social insurance. We also think of income inequality as a market failure. In all cases we use the competitive benchmark to measure the costs, and to design appropriate public policy.

Finally, we turn to social choice theory for a discussion of democracy. The median voter model provides a benchmark for the analysis of the political equilibrium, analogous to economic equilibrium. We discuss the conditions under which a majority will support intervention to correct for the public goods failure discussed above. We also consider alternative voting rules.

The required textbook is Hal R. Varian, Microeconomic Analysis, third edition. It may be purchased from the bookstore. Readings outside this text will also be assigned.

The grading scheme is:

- Homework assignments: 20%
- Midterm examination, February 20th: 35%
- Final examination, April 25th 1:00 – 3:00 pm: 45%

The course objective is to prepare students to pass the microeconomics qualifying exam next June.

Late assignments lose points and the exams must be taken at the scheduled times. Incompletes are not generally given for nonmedical reasons.

The University of Utah seeks to provide equal access to its programs, services and activities for people with disabilities. If you will need accommodations in the class, reasonable prior notice needs to be given to the Center for Disability Services (CDS), 162 Olpin Union Building, 581-5020 (V/TDD). CDS will work with you and the instructor to make arrangements for accommodations. All information in this course can be made available in alternative format with prior notification to the Center for Disability Services.
Topic Outline and Reading List

1. Welfare economics and market failures
   Varian, *Analysis*, chapters 17

2. Monopoly
   Varian, *Analysis*, chapters 14

3. Cost-benefit analysis
   Varian, chapters 10 and 22

4. Game theory, oligopoly and fairness
   Schermer, Michael “The Doping Dilemma: game theory helps to explain the pervasive abuse of drugs in cycling, baseball and other sports,” *Scientific American*, April 2008
   Varian, *Analysis*, chapters 15 and 16

5. Public goods
   Varian, chapters 10 and 22
   Sandler, Todd, *Collective Action*, 1992, chapter 2
   Varian, chapter 23

6. Uncertainty and information
   Varian, chapters 11 and 25

7. Social choice
   Kiefer, David *Macroeconomic Policy and Public Choice*, 1999, chapter 3

8. Conclusion and review