Course Syllabus
14.03: Intermediate Applied Microeconomics, Spring 2003

Instructor:
Professor: David Autor, E52-371, 617.258.7698, dautor@mit.edu
Assistant: Lauren Fahey, E52-383, 617.253.4669, lola@mit.edu
Office Hrs: MW, 1pm – 2pm and by appt.

Head TA: Mark Lewis (lewismj@MIT.EDU)
Assistant TAs: Matilde Bombardini (matildeb@MIT.EDU), Constantin Chiscanu (chiscanu@MIT.EDU), Tracey Seslen (tseslen@MIT.EDU).
Office Hours: Mondays and Wednesdays, 4pm – 5pm, E52-232 (except Feb 12).

Schedule
Class hours: Tuesdays and Thursdays, 2:30 - 4:00pm, Room 4-270.
Recitations: Fridays at 10am, 1pm, 2pm and 3pm in Room 3-343.
There will be no recitation the first week of class.

Textbook:

Purchase note: This book lists for $111.00 but can often be found for half that price on the web. Try http://www.addall.com/ and search for the ISBN above.

Course Reader:
A packet of reading materials is available at Graphic Arts. Readings (in addition to the text) will be assigned every week. The reading is important for the course, but some of the articles have more technical sections that are not required. Reading assignments will given in class and problem sets will provide further guidance as to what is important. Note that some class articles are on the web but not in the reader. Check the syllabus for a URL before you conclude that the article is missing.

World Wide Web:
The World Wide Web address for the class is http://stellar.mit.edu/S/course/14/sp03/14.03/.
Problem sets, the syllabus, reading assignments, and the reading list will be available in either text or PDF form. We will try to keep the web site up to date.

Useful references:
Copies of these texts will be placed on reserve at Dewey Library (next to E-52):
Binger, Brian R. and Elizabeth Hoffman, Microeconomics with Calculus, 2nd edition, Massachusetts: Addison-Wesley, 1998. An alternative to Nicholson but more math and less intuition. Chapters 1 – 3 provide a more detailed mathematical introduction to the tools of this course than Nicholson. If you are dissatisfied with Nicholson’s chapter 2, you should look here.


Simon, Carl P. and Lawrence Blume, Mathematics for Economists, New York: W.W. Norton, 1994. This is a great source that starts with the basics and goes quite deep. But it’s expensive: $120 new.


Problem Sets:

This course will require 6 to 8 problem sets that are due in class and will be discussed in section on Friday. The problems sets normally have two parts: one covering more technical problems out of the text book and class lectures and the other covering applications based on the assigned reading and class discussion. Problem sets will not be accepted after 5 p.m. on the stated due date. After class, they should be placed in the 14.03 box in, E52-380, where my assistant Lauren Fahey sits. After 5pm of the due date, you will receive no credit for your assignment. There will be no exceptions.

In order to accommodate unanticipated events, illness, or conflicts in your schedule, we will drop the problem set with the lowest score (for example, the one that you don’t hand in) when computing your problem set grade.

Exams, problem sets, classroom performance, and grading:


Your in-class contribution matters. I adjust grades upwards – sometimes substantially – for students who prepare for class, participate in class discussion, and take risks by sharing their ideas – even if those ideas aren’t always correct. Excellent class participation can increase your grade by as much as two-thirds of a letter grade (e.g., from straight B to A-). I reserve the right to cold call in class.

Three 90-minute exams will be given, all during class. I attempt to stagger the exams so that they don’t fall during regular mid-term period. This means that you can give more time to studying for 14.03 exams, and the exams will be more challenging accordingly.

Each exam will only focus on the new material since the last exam, although of course you will need to understand the older material to apply the new material. The exams will be based on the textbook, the problem sets, the assigned readings, and classroom discussion. Performance on exams is highly correlated with performance on problem sets.
The class is not graded on a strict curve; it’s possible for everyone to do well. At the same time, I do take into account relative performance when assigning grades; if the high score on an exam is 75 points, I call that an A, not a C+.

**On attending and contributing to class:**

This is not a textbook class and you will do poorly if you miss the lectures on the assumption that you can make it up with the textbook. *If you were planning to take another class that meets at the same time as 14.03, I strongly discourage it.* Students who have tried this in the past fared poorly – and received little sympathy from the instructor. For better or worse, this is not a generic micro-theory class and accordingly our textbook does not adequately cover everything we’ll be discussing this semester.

**Questions regarding grading:**

Questions regarding grading are to be directed first to our TAs. *Questions regarding the grading of a problem set or exams must be received by the TA no later than one week after the problem set or exam has been handed back. After one week, no appeals will be considered.* To have the grading re-considered you must follow the following steps:

1. Take the material to the TA along with a note describing specifically what you believe the problem to be. (Make a copy of your note and the problem set/exam for your own safekeeping.) Leave the material and note with the TA along with your email address.

2. After the TA has contacted you by email, come to the TA’s office to discuss the question.

This procedure is designed to help to ensure fair grading by providing your TA with an opportunity to think about your questions carefully before responding.

**Schedule:**

Class topics and readings are subject to revision. It is possible that some topics and related readings will be dropped if time runs short.
Class Outline

(*) Starred readings are required.

1. Overview of the course

1.1. Overview of the course

1.2. The Minimum Wage: Review of supply and demand models

1.3. Microeconomic models, comparative statics, and optimization

(*) Nicholson, Chapters 1 and 2. (math refresher)


2. Choice and the theory of demand

2.1. Rationality axioms, utility, and indifference curves

2.2. Constrained utility maximization, demand functions, indirect utility, the expenditure function

2.3. Individual demand, income and substitution effects

2.4. Substitutes and complements, market demand, and elasticities

2.5. Applications: Food Stamps, Gift Giving, Consumer Price Indices
3. Choice, uncertainty, and information


(*) Nicholson, Chapter 8.

(*) Kane, Thomas J. and Douglas Staiger, “Teen Motherhood and Abortion Access,”
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http://libproxy.mit.edu:8015/sici?sici=0033-5533%28199705%29112%3A2%3C647%3ATEOMAL%3E2.0.CO%3B2-2
4. Prices, perfect competition, general equilibrium and economic efficiency

4.1. Economic efficiency and welfare analysis

4.2. General competitive equilibrium

4.3. Trade, comparative advantage, competitiveness, and redistribution

(*) Nicholson, chapter 15, 16, and 17.


(*) Krugman, Paul “Ricardo’s Difficult Idea.” Available at: http://www.pkarchive.org/trade/ricardo.html


5. Deviations from perfect efficiency

5.1. Externalities, public goods and regulation

(*) Nicholson, chapter 24.


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5.2. Insurance, moral hazard and adverse selection

(*) Nicholson, Chapter 9. (Warning: this chapter is a poor introduction to information economics.)
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http://libproxy.mit.edu:8015/sici?sici=0002-8282%28199805%2988%3A2%3C122%3AAASAAR%3E2.0.CO%3B2-B

http://libproxy.mit.edu:8015/sici?sici=0033-5533%28197008%2984%3A3%3C488%3ATMF%22QU%3E2.0.CO%3B2-6

5.3. Market signaling


6. Information and Strategy: Game Theory and Network Externalities

(*) Nicholson, Chapter 10.


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