Microeconomic Theory III

The central topic of this course is the theory of general equilibrium and its applications and extensions. We will start with the basic theory including existence and optimality of equilibrium. We will then discuss the core; Arrow's impossibility theorem; externalities and public goods; intertemporal competitive equilibrium and insurance; and incomplete markets. We will consider some second-best issues.

Readings marked * are highly recommended and cover core topics that will be examined. Other readings are supplementary, but you should look at least some of them. When more than one of them is available, the Kreps, Mas-Colell/Whinston/Green and Varian readings are substitutes, depending on the style you prefer. Readings from these three books are not in the Graphic Arts package.

1. **Existence and Optimality of General Equilibrium**
   
   * G. Debreu, *Theory of Value*.
   * K. Arrow and F. Hahn, *General Competitive Analysis*.

2. **The Core and Convergence Theorem**
   
   * Mas-Colell, Whinston, and Green, Chapter 18B.

3. **Arrow's Impossibility Theorem**
* Kreps, Chapter 5.
* Mas-Colell, Whinston, and Green, Chapter 21A-C.
J. Geanakoplos, Three Brief Proofs of Arrow's Impossibility Theorem, unpublished.

4. **Externalities and Public Goods**
* Kreps, Chapters 6 and 8.
* Varian, Chapters 23 and 24.
* Mas-Colell, Whinston, and Green, Chapter 11.
* J. Green and E. Sheshinski, "Direct vs. Indirect Remedies for Externalities," *Journal of Political Economy* 84, 1976, 797-808.
* E. Sheshinski, "Note on Atmosphere Externality and Corrective Taxes," Discussion Paper 84, Center for Rationality and Interactive Decision Theory, Hebrew University, Jerusalem.
* R. Williams, "Prices vs. Quantities vs. Tradable Quantities, NBER WP 9283, October 2002.
5. **Intertemporal Competitive Equilibrium**
   * Kreps, Chapter 6, Section 5.
   * Varian, Chapter 19.
   * Mas-Colell, Whinston, and Green, Chapter 20.

6. **Uncertainty with Complete Markets**
   * Kreps, Chapter 6, Section 5.
   * Varian, Chapter 20.
   * Mas-Colell, Whinston, and Green, Chapter 19, Parts A-E.
   
   
   
   P. Dasgupta and G. Heal, Chapters 4 and 6.
   
   
   
   

7. **Incomplete Markets**
   
   * Mas-Colell, Whinston, and Green, Chapter 19, Parts F and G.
   
   
   
   


