

Course title **Economic Theory**

Study program

Economics and Finance

Laurea/LM/LMcu

LM

A.A.

2017/2018

Teacher:

Vincenzo Platino

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SECS -S/06

CREDITS

6

Year of studies

I

Semester

II

EXPECTED LEARNING OUTCOMES**Knowledge and understanding**

The course aims to introduce students to several related areas of active application of economic theory.

Knowledge and applied understanding

Students should gain an appreciation of the use, but also the limitations, of economic theory and its methods in understanding the chosen topics and analyzing important social and economic problems.

PROGRAM

The first part of the course focuses on Consumption theory, testable restrictions (Slutsky matrix, Afriat's Theorem and GARP) and Collective Consumption Models. Furthermore, the course will also provide a brief overview of the Theory of General Economic Equilibrium from a differentiable approach and the Theory of Regular Economics. The second part of the course will introduce the Theory of Two-Sided Matching. It will analyze matching mechanisms for two sided market structures and study their main properties (e.g., stability, efficiency and strategy-proof).

CONTENTS

Overview of Individual Decision-Making. Preference relations. basic assumptions on preference relations. Strict and indifference relations. Utility functions. Choice rules. Weak Axiom of revealed preference (WARP). The relationship between preference relations and choice rules. Utility Maximization Problem and Expenditure Minimization Problem. Basic assumptions on utility functions. Marshallian and Hicksian demands: existence of solutions (Extreme Value Theorem) and uniqueness. Relationship between Marshallian demand and Hicksian demand. Characterization of a solution (Karush-Kuhn-Tucker necessary and sufficient conditions). Comparative statics: differentiability of Marshallian and Hicksian demands (Implicit Function Theorem). Implications of the Implicit Function Theorem in terms of derivatives. Expenditure function. Hicksian demand: properties of its derivatives. Marshallian demand: properties of its derivatives. Generalized Slutsky equations. Revealed Preferences. Generalized Axiom of Revealed Preference (GARP) and Afriat's theorem. Overview of an equilibrium model. General formulation: agents, actions, environmental/institutional parameters (individual and social parameters), payoffs, environmental/institutional constraints (individual and social constraints). Equilibrium: individual behavior and social consistency. Specific formulation: individuals/consumers, consumptions of goods, endowments and market prices, utility functions, budget constraints, feasibility. Competitive equilibrium: consumer's behavior and market clearing conditions. Existence of a competitive equilibrium. Two approaches. The aggregate excess demand function approach: Mas-Colell et al. (1995) (a simple existence proof, using Brouwer's Fixed Point Theorem). The extended approach based on properties of the equilibrium function: Smale (1974), Smale (1981), Villanacci et al. (2002) (an existence proof based on homotopy arguments). Regular economies. Definition of a regular economy. The importance of regular economies: comparative statics and testable restrictions. In the presence of imperfections (incomplete markets, public goods, externalities): regular economies towards Pareto improving policies. Theorem: Almost all economies are regular. Proof of the theorem (Regular values and Transversality Theorem).

TEXTBOOKS

Revealed Preference Theory, Christopher P. Chambers and Federico Echenique.
Economics of the Family, Martin Browning, Pierre-André Chiappori, Yoram Weiss.
Differential Topology and General Equilibrium with Complete and Incomplete Markets, Antonio Villanacci, Laura Carosi, Pierluigi Benevieri, Andrea Battinelli.
Two-Sided Matching: A Study in Game-Theoretic Modeling and Analysis, Alvin E. Roth, Marilda A. Oliveira Sotomayor.
Matching, Allocation, and Exchange of Discrete Resources, Tayfun Sönmez and M. Utku Ünver. HANDBOOK OF SOCIAL ECONOMICS

ASSESSMENT METHOD**a) Learning results to be verified:**

The exam verifies the knowledge acquired and the ability to apply new developed skills by solving the proposed exercises.

b) Assessment Method

The total grade will be based on a final written exam

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In case of a written exam, questions are*: ☐ Multiple choices
(* *more answers possible*)

X Open questions

X Numerical exercises