

Consumption, Production, and Welfare B (MA)

Winter 2019/20

Lecturer: Ana B. Ania <ana-begona.ania-martinez@univie.ac.at>
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Lectures: Wed 9 October to 29 January at 9.45-11.15 in lecture room 12 (2nd floor)
Thu 10 October to 30 January at 11.30-13.00 in lecture room 5 (ground floor)
Fri 11 October to 31 January at 9.45-11.15 in lecture room 3 (ground floor)

No lectures on Wed 30 and Thu 31 October. These have been *re-scheduled* to Thu 17 October at 9.45 in lecture room 9 (1st floor) and Wed 23 October at 11.30 in lecture room 17 (2nd floor).

Registration: Online registration via u:space. Registered students must sign in the *attendance list on the first day*. Students who decide to drop out the course must *deregister by 14 October 2019*. For questions regarding registration, please contact Elisabeth Polster.

ECTS points: 12 ECTS in the Economics Master, in the Master in Philosophy and Economics, and in the Master in Business Administration.

Aims: The course provides master students with the basic tools of microeconomic analysis. Upon successful completion students are able to work with the basic models of market competition, price determination, and welfare analysis. In simple theoretical examples, they are able to compute market equilibria and perform comparative statics. They are able to make a qualitative assessment of how different political interventions or parameter changes affect market welfare. In examples and real-world applications students identify the main features of the market at hand and the presence and nature of market failures. They can assess the consequences for equilibrium outcomes and welfare properties in markets with strong externalities, when some agents have market power, or missing information. Last but not least, students are also able to convincingly discuss about these issues in form of a report or essay addressed to the general reader or interested party.

Method: The lecturer will present the topics of the course and some introductory examples in class. Problem sets will be distributed regularly through the course platform. Students are expected to work on the problem sets on their own. Some exercises will also be treated in class with help of small-group discussions and student presentations. Active learning will also be promoted with exercises and old exam questions posted in the course platform, as well as with writing assignments.

Grading: The final grade will be a weighted average of the results in two closed-book, written midterm (30%) and final (40%) exams, as well as a written assignment (30%). For a minimum passing grade students must have satisfactorily completed the exercise units as well as midterm, final, and written assignment with an average of 50%. The final grade can be improved in an optional make-up exam.

Exam dates: *Midterm* on Thu 21 November at 11.15 in lecture room 14 (2nd floor)
Final on Fri 31 January at 9.45 in lecture rooms 3 and 5 (ground floor)
Make-up on Mon 24 February at 15.00 in lecture room t.b.a.

Textbooks:

- Hugh Gravelle and Ray Rees, *Microeconomics*, FT Prentice Hall, 3rd. edition, 2004.
- Geoffrey Jehle and Philip Reny, *Advanced Microeconomic Theory*, Addison Wesley, 3rd. ed., 2011.
- Andreu Mas-Colell, Michael Whinston, and Jerry Green, *Microeconomic Theory*, Oxford UP, 1995.
- Thomas Nechyba, *Microeconomics: An Intuitive Approach with Calculus*, Cengage Learning 2015.
- Hal Varian, *Microeconomic Analysis*, W.W. Norton, 1992.

Materials: Additional literature and class materials will be available in the moodle site for this course.
<https://moodle.univie.ac.at/course/view.php?id=114693>

Tentative schedule

<i>Week</i>		<i>Date</i>	<i>Room</i>	<i>Topic</i>
1	VO	Wed 9.10. at 9:45h	HS 12 (2. OG)	Organizational issues
	VO	Thu 10.10. at 11:30h	HS 5 (EG)	Introduction
	UE	Fri 11.10. at 9:45h	HS 3 (EG)	Problem Set 1
2	VO	Wed 16.10. at 9:45h	HS 12 (2. OG)	Budget sets
	VO	Thu 17.10. at 9:45h	HS 9 (1. OG)	Preference axioms and utility representation
	VO	Thu 17.10. at 11:30h	HS 5 (EG)	Utility maximization
	UE	Fri 18.10. at 9:45h	HS 3 (EG)	Problem Set 2
3	VO	Wed 23.10. at 9:45h	HS 17 (2. OG)	Income and substitution effects
	VO	Wed 23.10. at 11:30h	HS 17 (2. OG)	Marshallian vs. Hicksian demand
	VO	Thu 24.10. at 11:30h	HS 5 (EG)	Expenditure function, CV and EV
	UE	Fri 25.10. at 9:45h	HS 3 (EG)	Problem Set 2 and 3
4	VO	Wed 6.11. at 9:45h	HS 12 (2. OG)	Application labor market
	VO	Thu 7.11. at 11:30h	HS 5 (EG)	Application saving decision
	UE	Fri 8.11. at 9:45h	HS 3 (EG)	Problem Sets 2 and 3
5	VO	Wed 13.11. at 9:45h	HS 12 (2. OG)	Exchange economy, Pareto efficiency
	VO	Thu 14.11. at 11:30h	HS 5 (EG)	Equilibrium, welfare theorems
	UE	Fri 15.11. at 9:45h	HS 3 (EG)	Problem Set 4
6	VO	Wed 20.11. at 9:45h	HS 12 (2. OG)	Final discussion consumer theory
	VO	Thu 21.11. at 11:30h	HS 14 (2. OG)	Midterm
	UE	Fri 22.11. at 9:45h	HS 3 (EG)	Midterm discussion
7	VO	Wed 27.11. at 9:45h	HS 12 (2. OG)	Technology and changes in one input
	VO	Thu 28.11. at 11:30h	HS 5 (EG)	Variations in scale and homogeneous functions
	UE	Fri 29.11. at 9:45h	HS 3 (EG)	Problem Set 5
8	VO	Wed 4.12. at 9:45h	HS 12 (2. OG)	Long run cost functions and economies of scale
	VO	Thu 5.12. at 11:30h	HS 5 (EG)	Short run cost functions and returns to each input
	UE	Fri 6.12. at 9:45h	HS 3 (EG)	Problem Set 6
9	VO	Wed 11.12. at 9:45h	HS 12 (2. OG)	Long run profit maximization
	VO	Thu 12.12. at 11:30h	HS 5 (EG)	Short run supply and producers' surplus
	UE	Fri 13.12. at 9:45h	HS 3 (EG)	Problem Set 7
10	VO	Wed 8.1. at 9:45h	HS 12 (2. OG)	Partial equilibrium with perfect competition
	VO	Thu 9.1. at 11:30h	HS 5 (EG)	Short-run vs. long-run equilibrium
	UE	Fri 10.1. at 9:45h	HS 3 (EG)	Problem Sets 8
11	VO	Wed 15.1. at 9:45h	HS 12 (2. OG)	Monopoly
	VO	Thu 16.1. at 11:30h	HS 5 (EG)	Price discrimination
	UE	Fri 17.1. at 9:45h	HS 3 (EG)	Problem Set 9
12	VO	Wed 22.1. at 9:45h	HS 12 (2. OG)	Expected utility and risk aversion
	VO	Thu 23.1. at 11:30h	HS 5 (EG)	Insurance markets
	UE	Fri 24.1. at 9:45h	HS 3 (EG)	Problem Set 10
13	VO	Wed 29.1. at 9:45h	HS 12 (2. OG)	Final discussion
	VO	Thu 30.1. at 11:30h	HS 5 (EG)	Questions
	UE	Fri 31.1. at 9:45h	HS 3 & 5 (EG)	Final

Essay guidelines

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As part of the coursework you are requested to elaborate on a news article related to microeconomic theory. What is the aim of this assignment? Doing research, being able to use existing knowledge to answer questions which are new to you, and writing about specific economic topics are all higher-order skills that can be trained with an essay assignment. Your capacity to critically evaluate other experts' work can be trained by reading and commenting other students' essays. In general, the assignment will help you reflect on the contents of the course and will activate knowledge transfer. This document contains some guidelines for writing a short classroom essay.

Reading phase: How to structure your reading, study and research before writing – the PQ4R method.

1. *Preview:* Choose one of the topics treated in the newspaper articles distributed in the course platform as a motivation for your essay. For this you may have to go through several of the articles and do a *superficial* first reading. Your aim at this stage is to identify a topic of your interest.
2. *Question:* Once you found an interesting topic, try to identify what makes it interesting to you. To this aim, formulate one or two questions that spontaneously came to your mind while reading and are related to the article. These are likely to be questions that are addressed in the article, but they may also be more broadly related to things discussed in the lecture. The aim at this stage is to formulate for the first time what could be the topic of your essay. This topic may be revised later on, but will motivate your research.
3. *Read* now the newspaper articles related to your topic in more detail, trying to identify the key concepts and arguments. Mark the concepts which are unknown to you, unclear passages, and those that need further checking. The aim at this stage is to identify the concepts that need to be contrasted with microeconomic theory.
4. *Research:* Look up the key concepts and those that are unknown to you. See if you can fit your questions to one of the basic models discussed in the microeconomics book. Do some research to fill in the gaps, to look for evidence, or more sophisticated models that allow you to form a qualified opinion. Your research should use reliable sources (databases like Scopus, JSTOR, EconLit available through the university library, also scholar Google and Google books). This is the part of the assignment where you acquire the relevant knowledge, connect to things that you already know, and put theory to work for you.
5. *Reflect* now about your reading and the questions you asked. To do so, summarize what you have learned so far; you can use mind maps, bullet point diagrams, or write down some thoughts as if you were passing this information informally to someone else. Use your own words and structure the information with the aim of motivating and answering the questions you asked yourself about the issue. The aim at this point is to check if you already have enough contents for your essay.
6. *Review:* Go over the whole process again, the questions and its relation to standard economics, your claims and the supporting arguments out of your readings, the story and your discussion. Is it consistent? Is there anything missing? Be sure to use only arguments that you yourself fully understand. Do you have any concluding open questions? Make a clear distinction between your arguments and those of other authors, be explicit about issues that are beyond the scope of your essay, left out of the discussion, or may still be open.

Main steps of the reading phase

Preview	Read some of the newspaper articles superficially to find a topic
Question	State the main question(s) that motivate your topic choice
Read	Read carefully the articles available marking the main concepts and arguments
Research	Look up the main concepts, find basic model, search for academic articles
Reflect	Summarize in your own words what you learned so far
Review	Go over the whole process again; check how far you got

Writing phase: You are now ready to write your essay. The text should summarize what you learned in the reading phase in about 800 words. It is a very short text, so the arguments should contain no math, but precise wording. Try to use simple English instead of technical terms (e.g., wellbeing or standard of living instead of utility level, welfare function, and the like). You can also use diagrams. The essay should be aimed at a specialized audience (another student, lecturer, or economist), who may not have thought about this question in detail, or whom you want to convince of your point of view. A standard format is the so called *five-paragraph essay*, which is structured as follows:

1. *Introduction:* A description of the problem (e.g., the piece of news, the observed phenomenon) that motivates the essay. Remember that the reader of the essay may not know about the problem, so the description should be accurate enough, contain maybe some historical or contextual details, so that everybody understands what the essay is about.
2. *Thesis:* At the end of the introductory paragraph you should state the main thesis, question, or issue to be addressed by the essay. You should formulate one or two sentences that describe what you are aiming at.
3. *The body paragraphs:* The next three paragraphs constitute the body of the essay. They elaborate on the topic, provide the analysis, evidence that supports this analysis, and possible counterarguments. The structure of the body paragraphs depends on the purpose of your essay, what you want to convey. Here are two different alternatives:

Alternative 1:

<i>Narration</i>	Description of the basic analysis, how does microeconomics tackle the issue
<i>Affirmation</i>	Evidence to support the conclusion of the analysis
<i>Negation</i>	Points missed by conventional analysis and evidence to support this criticism

Alternative 2: Each one of the body paragraphs are used as different steps to reach the conclusion. One could explain the basic analysis. A second one could describe some extensions. A third one could express more specifically your own personal opinion. All of them have to be supported with evidence; i.e., references to other articles that provide the theoretical or empirical background.

4. *Conclusion:* The concluding paragraph in such a short essay should provide a final evaluation, state maybe the next open question, or establish the connection to other more general issues. It should not repeat things that were just said, but it can be used to state the author's personal opinions and lessons learned.
5. *References:* The list of articles that were quoted in your essay. Look for example at the end of any of the quoted scientific papers to see how your reference list should look like. Google Scholar citations help can be used to add citations to your document with copy-paste.

What should the essay contain? What is the aim?

Length	Around 800 words
Aim	Discuss a current economic issue using microeconomics for specialized peers
Introduction	Exposition of the problem, motivation
Thesis	Statement of the main issue to be explained
Exposition	Developing the arguments, providing evidence, identifying missing links
Conclusion	Main lesson learned and relation to other issues

Content and style check: Here is a check list to help you polish your essay before you turn it in.

<i>Content checklist</i>	<i>Tick</i>
Is the essay self-contained? Did I explain all the key terms?	
Does my wording really reflect the technical contents I try to explain?	
Every paragraph relates to the question (don't ramble)	
Did I provide relevant examples or empirical evidence to support my discussion?	
Is my point of view clear? Did I contradict myself?	
If there are contradictory arguments, are they consistently contrasted?	
Did I explain my diagrams clearly in the main text?	
<i>Style checklist</i>	<i>Tick</i>
Did I use correct grammar?	
Did I use standard language and avoid slang	
Write concisely	
Check spelling	
Did I introduce diagram titles? How do I refer to the diagrams in the text?	
Are axes, curves, etc. clearly labeled in my diagrams?	
Choose a font type that is easily readable and big enough	
Leave enough space between the lines and margins to make marking easy	
Do I have a single pdf file containing everything?	

When and how to submit your assignment:

- Essays will be evaluated anonymously by other students. Do not write your name or ID number (Matrikelnummer) anywhere in the essay. To identify your document use your student's ID to name the file that you submit. We will then assign you a code and rename your file accordingly. Give your file a name as follows MN<your ID number>.pdf.
- Type your essay and submit a single pdf file with all diagrams and tables. If your text editor does not support this, there is free software that allows you to produce and join different pdf files. There are also web based applications to do this (see e.g. freePDFconvert, FreePDF, or PDFJoin).
- Upload your essay before December 23rd, 2019 to the Moodle platform through the assignment tab *Students' essays*. No e-mail submission. Only what comes through Moodle counts!

Further reading: The following are available as E-Books through the university library.

- Bakaj, Emeline. *Everything you need to know about writing a five-paragraph essay*. BrainMass Inc., 2012.
- Neugeboren, Robert. *The student's guide to writing economics*. Routledge, 2005.

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Essay evaluation forms

Please, evaluate the essays allocated to you according to the criteria listed below and upload your evaluations by January 31st. In each case, you are expected to make an assessment from 1 (min) to 5 (max) and provide a short explanatory statement.

Your evaluation will be uploaded to the Moodle platform and serve as a feedback for your fellow students.

Each essay will be read and evaluated by 3 other course participants, so every student will get 3 anonymous feedback sheets.

Give comments or explanations to briefly justify your evaluations or give advice for improvement.

Please, try to give constructive feedback to help your fellow students improve their writing skills.

Your feedback is given anonymously, so be honest and give comments that you would also find useful yourself.

Your comments are very important and will be used to assess the quality of your evaluation.

Good quality, honest evaluation will never reduce, but can improve your own grade.

These are the essays you have to evaluate:

Your personal code	Essay 1	Essay 2	Essay 3
a01	a02	a03	a04
a02	a03	a04	a05
a03	a04	a05	a06
a04	a05	a06	a07
a05	a06	a07	a08
a06	a07	a08	a09
a07	a08	a09	a10
a08	a09	a10	a11
a09	a10	a11	a01
a10	a11	a01	a02

Your personal code	Essay 1	Essay 2	Essay 3
a11	a01	a02	a03
a12	a13	a14	a15
a13	a14	a15	a12
a14	a15	a12	a13
a15	a12	a13	a14
a16			
a17			
a18			
a19			
a20			

Your personal code	Essay 1	Essay 2	Essay 3
a21			
a22			
a23			
a24			
a25			
a26			
a27			
a28			
a29			
a30			

Essay 1

Your code:

Essay code:

Essay's title:

Structure		1	2	3	4	5	Comments
Length	Around 800 words (+/- 100)						
Introduction	Exposition of the problem Motivation is given						
Thesis	Statement of the main issue is explained						
Exposition	Arguments are developed Evidence is provided Missing links are identified						
Conclusion	Main lessons learned Relation to other issues is stated						

Content	1	2	3	4	5	Comments
Is the essay self-contained? Are all the key terms explained?						
Does the wording really reflect the technical contents?						
Does every paragraph relate to the question?						
Are relevant examples or empirical evidence provided?						
Is the author's point of view clear?						
Is every diagram in the main text clearly explained?						

Style	1	2	3	4	5	Comments
Is correct grammar and spelling used?						
Is appropriate scientific language used?						
Is the text written concisely?						
Do all diagrams have titles? Are their elements clearly labeled?						

General comments	
This is a special strength of the essay	
Here is space for improvement	
Additional comments	

Essay 2

Your code:

Essay code:

Essay's title:

Structure		1	2	3	4	5	Comments
Length	Around 800 words (+/- 100)						
Introduction	Exposition of the problem Motivation is given						
Thesis	Statement of the main issue is explained						
Exposition	Arguments are developed Evidence is provided Missing links are identified						
Conclusion	Main lessons learned Relation to other issues is stated						

Content	1	2	3	4	5	Comments
Is the essay self-contained? Are all the key terms explained?						
Does the wording really reflect the technical contents?						
Does every paragraph relate to the question?						
Are relevant examples or empirical evidence provided?						
Is the author's point of view clear?						
Is every diagram in the main text clearly explained?						

Style	1	2	3	4	5	Comments
Is correct grammar and spelling used?						
Is appropriate scientific language used?						
Is the text written concisely?						
Do all diagrams have titles? Are their elements clearly labeled?						

General comments	
This is a special strength of the essay	
Here is space for improvement	
Additional comments	

Essay 3

Your code:

Essay code:

Essay's title:

Structure		1	2	3	4	5	Comments
Length	Around 800 words (+/- 100)						
Introduction	Exposition of the problem Motivation is given						
Thesis	Statement of the main issue is explained						
Exposition	Arguments are developed Evidence is provided Missing links are identified						
Conclusion	Main lessons learned Relation to other issues is stated						

Content	1	2	3	4	5	Comments
Is the essay self-contained? Are all the key terms explained?						
Does the wording really reflect the technical contents?						
Does every paragraph relate to the question?						
Are relevant examples or empirical evidence provided?						
Is the author's point of view clear?						
Is every diagram in the main text clearly explained?						

Style	1	2	3	4	5	Comments
Is correct grammar and spelling used?						
Is appropriate scientific language used?						
Is the text written concisely?						
Do all diagrams have titles? Are their elements clearly labeled?						

General comments	
This is a special strength of the essay	
Here is space for improvement	
Additional comments	