

7/23/04

**Stern School of Business
New York University**

Course Outline and Reading List
(Subject to Revision)

Microeconomics: Theory and Applications

B30.3335.01

3 credits. Ph.D. core course. Fall 2004

Wednesdays, 9 a.m. - noon, KMC 5-85.

Prof. Roy Radner

This course satisfies the core requirement in microeconomic theory for Stern doctoral students, and is especially designed for those whose programs do not include advanced courses in economic theory. It emphasizes concepts and techniques of microeconomic analysis that are likely to be useful in the students' doctoral dissertation research. We examine a number of current research issues in accounting, information systems, management and marketing (and possibly other areas, depending on the students enrolled), and in each case we explore the relevant microeconomic theory..

Textbook: Hal R. Varian, *Intermediate Microeconomic Theory: A Modern Approach*, W. W. Norton, New York, 2003, 6th edition (hereafter referred to as HRV).

[Note: For a more advanced treatment, see (MasColell et al, 1995). For a more complete introduction to game theory, see (Dutta,).]

Notes:

1. The research articles listed in the outline are illustrative; some may not be assigned for thorough study, and are designated "Add." Most of the readings will be distributed in a coursepack at the beginning of the semester. Other references may be added and distributed during the semester.
2. The textbook will be supplemented by notes to be distributed (denoted by RR).
3. The course grade will be based on homework exercises (35%), a midterm examination (25%), and a final examination (40%).

Outline

1. Market Demand and Elasticity. Tyagi, 1999; HRV, Ch . 1, Ch. 15, Ch. 24 ((pp. 419-425).

2A. Pricing and Surplus. Bakos and Brynjolfsson, 1999; HRV, Ch. 14 (225-254); RR, supplementary notes.

2B. Competitive Equilibrium. HRV, Ch. 16; RR, supplementary notes. Add: Bakos and Brynjolfsson, 2000.

3. Production, Cost, and Productivity. Brynjolfsson and Hitt, 1996; HRV, Chs. 18-22. Add: Brynjolfsson, Hitt, and Yang, 2002.

4A. Game Theory. HRV, Ch. 28; Radner, 1987; Radner, 2001.

4B. Oligopoly. McGuire and Staelin, 1983; HRV Ch. 27; Shaked and Sutton, 1982, 1983. RR, supplementary notes.

5. Agency and Compensation Basu, A. K., et al, 1985; Pearce *et al*, 1985; Pfeffer, 1998; HRV, Ch. 36; Radner, 1987. Add: Lal and Srinivasan, 1993.

6. Choice under Uncertainty and the Value of Information Morrison and Vancouver, 2000; Glazer *et al*, 1989; HRV, Ch. 12; Marschak and Radner, 1972, Chs. 1,2. Add: Radner and Stiglitz, 1983.

7. Consumer Choice. Guadagni *et al*, 1983; McFadden, 1986; HRV, Chs. 2-6.

8. Procedural and Distributive Justice. Folger and Kanovsky, 1989; Harder, 1991; HRV, Ch. 31; Lopomo and Ok, 2000.

9. Motivation, Perception, and Rationality. Steve ns and Fiske, 1995; Brewer and Caporeal, 1990; Prelec and Loewenstein, 1998; McFadden, 1999; Radner, 2000.

References

Bakos, Y., and E. Brynjolfsson (1999), "Bundling Information Goods: Pricing, Profits, and Efficiency," *Management Science*, 45, 1613-1630.

Bakos, Y., and E. Brynjolfsson (2000), "Bundling and Competition on the Internet," *Marketing Science*, 19, 63-82.

Basu, A. K., et al (1985), "Salesforce Compensation Plans: An Agency Theoretic Perspective," *Marketing Science*, 4, 267-291.

Brewer, M. B., and L. R. Caporeal (1990), "Selfish Genes vs. Selfish People: Sociobiology as Origin Myth," *Motivation and Emotion*, 14, 237-

Brynjolfsson, E., and L. M. Hitt (1996), "Productivity, Business Profitability, and Consumer Surplus: Three Different Measures of Information Technology Value," *MIS Quarterly*, June 1996, 121-142.

Brynjolfsson, Erik, Lorin M. Hitt, and Shinkyu Yang (2002), "Intangible Assets: Computers and Organizational Capital," *Brookings Papers on Economic Activity*, I:2002, pp. 137-198.

Connolly, T., and B. K. Thorn (1987), "Predecisional Information Acquisition: Effects of Task Variables on Suboptimal Research Strategies," *Organizational Behavior and Human Decision Processes*, 39, 397-416.

Dutta, Prajit K. (1999), *Strategies and Games: Theory and Practice*, MIT Press, Cambridge, MA.

Folger, R., and MZ. A. Konovsky (1989), "Effects of Procedural and Distributive Justice on Reactions to Pay Raise Decisions," *Academy of Management Journal*, 32, 115-130.

Guadagni, P. M., and J. D. C. Little (1983), "A Logit Model of Brand Choice Calibrated on Scanner Data," *Marketing Science*, 2, 203-238.

Harder, J. W. (1991), "Equity Theory Versus Expectancy Theory: The Case of Major League Baseball Free Agents," *J. of Applied Psychology*, 76, 458-464.

Lal, R., and V. Srinivasan (1993), "Compensation Plans for Single- and Multi-Product Salesforces: An Application of the Holmstrom-Milgrom Model," *Management Science*, 39, 777-793.

Lopomo, G. and E. Ok (2001), "Bargaining, Interdependence, and the Rationality of Fair Division," *RAND Journal of Economics*, 32, 263-283.

Marschak, Jacob, and R. Radner (1972), *Economic Theory of Teams*, Yale University Press, New Haven..

Mas-Colell, A., M. D. Whinston, and J. R. Green (1995), *Microeconomic Theory*, Oxford University Press, New York.

McFadden, D. (1986), "The Choice Theory Approach to Market Research," *Marketing Science*, 5, 275-297.

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Nicholson, Walter, *Microeconomic Theory* (1998), The Dryden Press (Harcourt College Publishers), Fort Worth, 7th edition

Pearce, J. L., W. B. Stevenson, and J. L. Perry (1985), "Managerial Compensation Based on Organizational Performance: A Time-Series Analysis of the Effects of Merit Pay," *Academy of Management J.*, 26, 261-278.

Pfeffer, J. (1998), "Six Dangerous Myths about Pay," *Harvard Business Review*, May-June, 1998, 109-119.

Prelec, D., and G. Loewenstein (1998), "The Red and the Black: Mental Accounting of Savings and Debt," *Marketing Science*, 17, 4-28.

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Shaked, A., and J. Sutton (1982), "Relaxing Price Competition through Product Differentiation," *Review of Economic Studies*, 49, 3-14.

Shaked, A., and J. Sutton (1983), "Natural Oligopolies," *Econometrica*, 51, 1469-1493.

Stevens, L. E., and S. T. Fiske (1995), "Motivation and Cognition in Social Life: A Social Survival Perspective," *Social Cognition*, 13, 189-214.

Tyagi, R. K. (1999), "A Characterization of Retailer Response to Manufacturer Trade Deals," *J. of Marketing Research*, 36, 510-516.