

# ECON5301 Markets and Frictions

## Course Outline Semester 1, 2017

### Part A: Course-Specific Information

Students are also expected to have read and be familiar with **Part B Supplement to All Course Outlines**. This contains Policies on Student Responsibilities and Support, Including Special Consideration, Academic Misconduct and Plagiarism, and Key Dates. It also contains the BUSINESS SCHOOL PROGRAM LEARNING GOALS.

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# 1 STAFF CONTACT DETAILS

Lecturer-in-charge: Associate Professor Benoit Julien

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Consultation time: TBA

Tutors: Edward Xie

## 1.1 Communications with staff

You should feel free to contact the staff about any academic matter. We prefer that all enquiries about the subject material be made at lectures or tutorials or during consultation times. We will not enter into extensive discussion of course subject material in emails.

Email correspondence on administrative matters (e.g. advising inability to attend lectures) will be responded to within 48 hours, but not over weekends. Please note that the lecturer has no advance notice of the date and time of the final exam, nor discretion to change this date for individual students.

# 2 COURSE DETAILS

## 2.1 Teaching Times and Locations

Lecture: Tuesday: 9-11am, Webster Theatre B, Weeks 1-12.

There are no lectures in Week 8 due to the Anzac Day public holiday.

Tutorials: Tuesday 11-12 Goldstein G02

Tuesday 12-13 Goldstein G02

Tuesday 13-14 Goldstein G02

Wednesday 10-11 Quad G025

Wednesday 11-12 Goldstein G01

Wednesday 3-4pm UNSW Business School 215

There are no tutorials in Weeks 7 due to the mid-term exam or Week 8 due to the Anzac Day public holiday.

## 2.2 Units of Credit

The course is worth 6 units of credit.

This course is taught in parallel to undergraduate and postgraduate students.

## 2.3 Summary of Course

This is a course in intermediate to advanced microeconomics. It builds on Microeconomics 2 and studies markets and their equilibrium and efficiency properties without standard assumptions of no frictions, complete information, etc. Topics will include a selection from the following: the interaction between different markets (general equilibrium theory), markets with search frictions or capacity constraints, bargaining, externalities, public goods, and social choice. The course provides students with advanced tools and models of microeconomic analysis, allowing for a deeper understanding of the functioning of real-world markets.

## 2.4 Aims and Relationship to Other Courses

This course is offered as a third year option in the economics stream in the BCom and BEc degrees. This course builds on basic theories and knowledge learnt in ECON2101 (Microeconomics 2). A familiarity with the material in ECON2112 (Game Theory) is also useful. It is one of four advanced microeconomics courses offered in the third year. The other three are ECON3121 (Managerial Economics), ECON3107 (Economics of Finance) and ECON3123 (Economics of Corporations).

**The emphasis of this course is on the theoretical foundations of economic analysis.** It is likely to be of greater interest to students contemplating further studies, and especially research, in economics, and of less interest to those who want to learn economics as a practical or business tool, although the material is highly relevant for business.

## 2.5 Student Learning Outcomes

The Course Learning Outcomes are what you should be able to DO by the end of this course if you participate fully in learning activities and successfully complete the assessment items.

The Learning Outcomes in this course also help you to achieve some of the overall Program Learning Goals and Outcomes for all undergraduate coursework students in the Business School. Program Learning Goals are what we want you to BE or HAVE by the time you successfully complete your degree. You demonstrate this by achieving specific Program Learning Outcomes - what you are able to DO by the end of your degree.

For more information on the Undergraduate Program Learning Goals and Outcomes, see Part B of the course outline.

The following table shows how your Course Learning Outcomes relate to the overall Program Learning Goals and Outcomes, and indicates where these are assessed:

Program Learning Goals and Outcomes		Course Learning Outcomes	Course Assessment Item
<i>This course helps you to achieve the following learning goals</i>		<i>On successful completion of the course, you should be able to:</i>	<i>This learning outcome will be assessed in the following items:</i>
1	Knowledge	<p>Explain how markets work.</p> <p>Gain an understanding of the impact of information on market organisation.</p> <p>Appreciate some of the microeconomic foundations of macroeconomic policy.</p>	<ul style="list-style-type: none"> <li>• Tutorial Problems</li> <li>• In-tutorial Quizzes</li> <li>• Exams</li> </ul>
2	Critical thinking and problem solving	<p>Critically appraise the relation between market outcomes and outcomes of non-market allocation mechanisms</p> <p>Analyze and critically evaluate the conceptual basis of economic efficiency.</p>	<ul style="list-style-type: none"> <li>• Tutorial Problems</li> <li>• In-tutorial Tests</li> <li>• Exams</li> </ul>
3a	Written communication	Construct careful logical proofs of analytical propositions.	<ul style="list-style-type: none"> <li>• Tutorial Problems</li> <li>• Exams</li> </ul>
3b	Oral communication	Not specifically addressed in this course.	Not specifically assessed.
4	Teamwork	Work collaboratively to complete a task.	Not specifically assessed.
5a.	Ethical, environmental and sustainability considerations	Not specifically addressed in this course.	Not specifically assessed.
5b.	Social and cultural awareness	Not specifically addressed in this course.	Not specifically assessed.

## 3 LEARNING AND TEACHING ACTIVITIES

### 3.1 Approach to Learning and Teaching in the Course

This course will explore the relation between market processes and economic efficiency. Students are encouraged to think about concepts rather than merely memorise results. The subject matter is viewed from different angles to enable students to gain a deeper understanding of the issues. Note that this course is primarily theoretical, and is likely to appeal to students who are interested in the conceptual foundations of economic theory.

### 3.2 Learning Activities and Teaching Strategies

The examinable content of the course is defined by the references given in the Lecture Schedule, the content of Lectures, and the content of the Tutorial Program.

#### *Lectures*

The purpose of lectures is to provide a logical structure for the topics that make up the course; to emphasize the important concepts and methods of each topic, and to provide relevant examples to which the concepts and methods are applied. Students should refer to the assigned readings for further details and be sure to attempt the tutorial exercises.

#### *Tutorials*

Tutorials begin in Week 2 and are an integral part of the subject. The object of the tutorials is to discuss various approaches to, and issues associated with the assigned exercises and topics covered in the course.

The experience of previous semesters indicates that Attending lectures, following up on numerical examples, and doing homework actively are important for achieving even a modest grade in this course.

## 4 ASSESSMENT

### 4.1 Formal Requirements

In order to pass this course, the student must:

- achieve a composite mark of at least 50 out of a maximum of 100,
- pass the final exam, and
- make a satisfactory attempt at ALL assessment tasks (see below).

### 4.2 Assessment Details

Assessment	Weighting	Length	Dates
Tutorial participation	10%	15 minutes each	Weeks 3, 5 & 11, in lecture
Mid-session exam	40%	1 hr 30 min	Week 7 in lecture time
Final Exam	50%	2 hours	University Exam Period
Total	100%		

### 4.3 Homework

No homework or assignments requirement. However, series of questions and problems will be assigned prior to tutorial. Students should attempt answers and answers will be presented in the tutorials, along with some additional material. Adhering to this practice will maximize your learning experience and ease your study for exams.

### 4.4 Mid-session examination

A mid-session exam will be held in the lecture period during WEEK 7. The exam will be 1 hour and 30 minutes in duration and will be based on the materials covered in weeks 1-5. The main objective of the mid-session exam is to provide you with feedback on your progress. In past years, most students in this course have performed better in the final exam than in the mid-session exam. In this sense the mid-session exam is a useful learning exercise.

### 4.5 Final Exam

The final examination will be 2 hours in duration and will be held in the University's final examination period. Information on the content of the final exam will be provided towards the end of session. The purpose of the final exam is to assess knowledge of the topics covered in the course. The content of the final exam will be weighted slightly more towards material covered after the mid-session exam.

### 4.6 Quality Assurance

The Business School is actively monitoring student learning and quality of the student experience in all its programs. A random selection of completed assessment tasks may

be used for quality assurance, such as to determine the extent to which program learning goals are being achieved. The information is required for accreditation purposes, and aggregated findings will be used to inform changes aimed at improving the quality of Business School programs. All material used for such processes will be treated as confidential and will not be related to course grades.

## 5 COURSE EVALUATION AND DEVELOPMENT

Each year feedback is sought from students and other stakeholders about the courses offered in the School and continual improvements are made based on this feedback. UNSW's myExperience Survey Tool is one of the ways in which student evaluative feedback is gathered. You are strongly encouraged to take part in the feedback process.

## 6 COURSE RESOURCES

The website for this course is on UNSW Moodle at: <http://moodle.telt.unsw.edu.au>

### Textbooks:

There is no prescribed textbook for this course. Whenever possible we will use open-source textbooks that are freely available online. More details on the location of the textbooks will be given on the first day of class. Examples of such textbooks that will be referring to are:

*Introduction to Economic Analysis* by R. Preston McAfee. The text is available in pdf format [here](#)

This is a more basic treatment than the level of this course, but it is a good reference and it has many applications.

A more advanced treatment is here <http://www.mcafee.cc/Introecon/Source2007.zip>

Lecture notes will be available on Moodle, and should be treated as textbook material.

**Additional Readings:** Additional readings will be assigned for some lectures. As long as copyright laws permit, these readings will be made available on the course website.

Lecture notes (when relevant) will be available on the course website on Moodle usually at least 24 hours before each lecture. Tutorial exercises will be available on Moodle about a week in advance of the tutorial in which they are covered.

## 7 COURSE SCHEDULE

### 7.1 Lecture Schedule

Lectures start in Week 1 and finish in Week 12.

LECTURE SCHEDULE		
Week	Topic	Reference
Week 1 27 February	<p><b>Introduction.</b></p> <p>Admin matters</p> <p>Equilibrium, efficiency, inefficiency</p> <p>A simple 2-market example of general equilibrium</p>	Detailed references for each lecture will be distributed in the first lecture/Week.
Week 2 6 March	<p><b>Recap of consumer theory.</b></p> <p>Preferences, utility, budget constraint</p> <p>Utility maximisation, demand curves</p> <p>Demand curves with endowment constraints</p>	
Week 3 13 March	<p><b>The two person exchange model.</b></p> <p>Edgeworth box, contract curve, core</p> <p>Offer curves, competitive equilibrium</p> <p>Pareto efficiency</p>	
Week 4 20 March	<p><b>General equilibrium in the exchange economy.</b></p> <p>Excess demand curves, Walras' Law</p> <p>Existence of equilibrium</p> <p>Two theorems of welfare economics</p>	
Week 5 27 March	<p><b>General equilibrium with production.</b></p> <p>Decentralisation by prices: Robinson Crusoe</p> <p>A two-person production economy</p>	

	General equilibrium and efficiency in diagrams.	
Week 6 03 April	<b>Applications of Markets and Exchanges</b>	
Week 7 10 April	<b>Midterm Exam</b>	
Mid-semester break: Friday 14 – Saturday 22 April inclusive		
Week 8 24 April	<i>(Tuesday 25 April is Anzac Day public holiday)</i> No lectures due to Anzac Day public holiday	
Week 9 1 May	<b>Departures from perfect competition:</b> <b>Informational Frictions</b> <b>Search markets</b>	
Week 10 8 May	<b>Multiple equilibria &amp; coordination failure</b>	
Week 11 15 May	<b>Matching markets</b>	
Week 12 22 May	<b>Applications of Imperfectly competitive markets</b>	
Week 13 29 May	NO LECTURES	

## 7.2 Tutorial Schedule

Tutorials start in Week 2 and finish in Week 13. The tutorial topics follow the topics of the previous week lectures. More details on locations and dates for the tutorials will be given on the first Week of class.

There will be no tutorials in Week 7 due to the mid-term exam.

There will be no tutorials in Week 8 due to the Anzac Day public holiday.