

FDPE MICROECONOMIC THEORY 2: DECISION MAKING UNDER
UNCERTAINTY AND GENERAL EQUILIBRIUM THEORY

Fall 2015

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Outline

In the first part of the course we study decision making under uncertainty focusing on the approach of von Neumann and Morgenstern. The theory is applied to questions of risk and related topics. Other approaches to decision making under uncertainty are also mentioned.

In the second part we study the basics of general equilibrium theory (GET); modelling, existence of equilibrium, welfare theorems. The relationship between the equilibrium and the core is high-lighted via the core convergence theorem. Finally, we study how GET can handle uncertainty.

Required material

Lecture notes and the problem sets are posted at the FDPE website

- <http://www.fdpe./current-courses-and-workshops/mi11516.html>
- The main text of the course is "Microeconomic Theory" by Andreu Mas-Colell, Michael Whinston and Jerry Green (MWG), Oxford University Press 1995, chapters 6, 15-19.
- Maskin E, Roberts K. On the Fundamental Theorems of General Equilibrium. *Economic Theory*. 2008;35(2): 233-240.
- Foster D, Hart S. An Operational Measure of Riskiness. *Journal of Political Economy*, 2009, vol. 117, no. 5: 785-814.
- A good reference is "Microeconomic Foundations I: Choice and Competitive Markets", by David Kreps (K), Princeton University Press 2012

Place and time

31.8.-28.9.2014 on Tuesdays 12-14 and Tuesdays 14-16 at Economicum seminar room 3-4 (Arkadiankatu 7)

Structure

Lecture 1: Expected utility theory (MWG6)

Lecture 2: Risk and stochastic dominance (MWG6)

Lecture 3: State dependent utility and complete ordering of gambles (MWG6, Foster & Hart)

Lecture 4: Examples

Lecture 5: General equilibrium theory: equilibrium existence and welfare theorems. (MWG16-17, Maskin & Roberts)

Lecture 6: Budget and excess demand correspondences (MWG17)

Lecture 7: Core and equilibrium (MWG18)

Lecture 8: Core convergence (MWG18)

Lecture 9: Uncertainty and contingent commodities (MWG19)

Problem sets

Exercises are arranged by PhD student Michele Crescenzi in Economicum seminar room 3-4 as follows:

Nov 9 Mon 16-18

Nov 16 Mon 16-18

Nov 23 Mon 16-18

Final exam

Dec 11 Fri 10-14

Assessment: Final/retake exam with the 40% minimum points criterion