

EC 718: Topics in Microeconomic Theory, Part 1

Bart Lipman
blipman@bu.edu
<http://people.bu.edu/blipman>

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My half of the course will focus on decision theory and “bounded rationality.” Under decision theory, I’ll discuss subjective probability and ambiguity, unforeseen contingencies, temptation, and regret. Under the heading of bounded rationality, I will discuss unforeseen contingencies (again) and other topics to be determined as time permits.

Requirements:

Your grade for the semester will be based on a research proposal. The idea is to have a relatively concrete proposal that might (but doesn’t have to) turn into a second year paper. The proposal will be graded based on originality and likely feasibility.

You will be required to turn in an interim report on this proposal the last day of my half of the course, Monday March 5, in class. This interim report could take many forms. In principle, it could be a rough draft of what you hope to turn in for the final proposal at the end of the semester. More likely, it will be a list of possible topics or directions, presumably not entirely precise, but the more concrete, the better. This will enable me to give you feedback on your proposal before you finish it by the end of the semester. Naturally, the more concrete and detailed your interim report is, the more likely it is that I can offer you some useful feedback.

The final research proposal is due to Jawwad the last day of class, Wednesday May 2, in class. Your course grade will be based on both the interim report (30%) and the final proposal (70%).

Also, I will give occasional problem sets for practice, but these will not be turned in.

Office Hours:

My office hours will be on Mondays from 11 to 12:30 and Tuesdays from 1 to 2:30

in room 558 at 270 Bay State Road beginning Monday January 30. Because of other commitments, my office hours the week of January 23 will be different: Tuesday January 24 from 2 to 3:30 and Wednesday January 25 from 1 to 2:30. As this irregularity suggests, office hours are subject to change. All changes will be announced in class. I will also be available by appointment at other times. The best way to set up an appointment is to email me at blipman@bu.edu with a list of days and times that work for you.

The reading list combines some recommended (not “assigned”) readings along with some further references to the literature for your report and in case you wish to do more reading. All dates are approximate and everything listed here is subject to change. The recommended readings are the ones with the stars, the rest are further references. I will decide later which readings from the last section of the syllabus will be covered.

The following book is in the bookstore and is recommended for both halves of the course.

Kreps, D., *Notes on the Theory of Choice*, Boulder: Westview Press, 1988.

I also recommend

Rubinstein, A., *Modeling Bounded Rationality*, MIT Press, 1998.

Week 1. Introduction/Subjective Probability

*Dekel, E., and B. Lipman, “How (Not) to Do Decision Theory,” *Annual Review of Economics*, 1, 2010, 257–282.

*Kreps, D., *Notes on the Theory of Choice*, Westview Press, 1988, Chapters 7–9.

Anscombe, F., and R. Aumann, “A Definition of Subjective Probability,” *Annals of Mathematical Statistics*, 34, 1963, 199–205.

Savage, L. J., *The Foundations of Statistics*, Dover Publications, 1972.

Week 2. Ambiguity

*Gilboa, I., and D. Schmeidler, “Maxmin Expected Utility with Non–Unique Prior,” *Journal of Mathematical Economics*, 18, #2 1989, 141–153.

*Schmeidler, D., “Subjective Probability and Expected Utility without Additivity,” *Econometrica*, 57, May 1989, 571–587.

Epstein, L., “A Paradox for the ‘Smooth Ambiguity’ Model of Preference,” *Econometrica*, 78, November 2010, 2085–2099.

Epstein, L., and M. Schneider, “Ambiguity and Asset Markets,” *Annual Review of Financial Economics*, 2, 2010, 315–346.

Klibanoff, P., M. Marinacci, and S. Mukerji, “A Smooth Model of Decision Making under

Ambiguity,” *Econometrica*, 73, November 2005, 1849–1892.

Klibanoff, P., M. Marinacci, and S. Mukerji, “On the Smooth Ambiguity Model: A Reply,” *Econometrica*, forthcoming.

Kopylov, I., “Choice Deferral and Ambiguity Aversion,” *Theoretical Economics*, June 2009, 199–225.

Maccheroni, F., M. Marinacci, and A. Rustichini, “Ambiguity Aversion, Robustness, and the Variational Representation of Preferences,” *Econometrica*, 74, November 2006, 1447–1498.

Week 3. Preferences over Menus: Unforeseen Contingencies

*Dekel, E., B. Lipman, and A. Rustichini, “Representing Preferences with a Unique Subjective State Space,” *Econometrica*, July 2001, 891–934.

*Dekel, E., B. Lipman, A. Rustichini, and T. Sarver, “Representing Preferences with a Unique Subjective State Space: Corrigendum,” *Econometrica*, March 2007, 591–600. See also “Supplementary Material,” available on line at Econometric Society web site.

*Kreps, D., “A Representation Theorem for ‘Preference for Flexibility,’” *Econometrica*, 47, May 1979, 565–577.

*Kreps, D., “Static Choice in the Presence of Unforeseen Contingencies,” in *Economic Analysis of Markets and Games: Essays in Honor of Frank Hahn*, ed. by P. Dasgupta, D. Gale, O. Hart, and E. Maskin, MIT Press, 1992, 259–281.

Ahn, D., and H. Ergin, “Framing Contingencies,” *Econometrica*, 78, March 2010, 655–695.

Epstein, L., M. Marinacci, and K. Seo, “Coarse Contingencies,” *Theoretical Economics*, 2, December 2007, 355–394.

Krishna, R. V., and P. Sadowski, “Dynamic Preference for Flexibility,” Duke University working paper, May 2011.

Week 4. Preferences over Menus: Temptation and Regret

*Dekel, E., and B. Lipman, “Costly Self Control and Random Self Indulgence,” *Econometrica*, forthcoming.

*Dekel, E., B. Lipman, and A. Rustichini, “Temptation–Driven Preferences,” *Review of Economic Studies*, July 2009, 937–971.

*Gul, F., and W. Pesendorfer, “Temptation and Self–Control,” *Econometrica*, November 2001, 1403–1435.

*Lipman, B., and W. Pesendorfer, “Temptation,” BU working paper, January 2011.

*Sarver, T., “Anticipating Regret: Why Fewer Options May Be Better,” *Econometrica*, 76, March 2008, 263–305.

Dillenberger, D., and P. Sadowski, "Ashamed to be Selfish," *Theoretical Economics*, forthcoming.

Noor, J., and N. Takeoka, "Uphill Self-Control," *Theoretical Economics*, May 2010, 127–158.

Noor, J., and N. Takeoka, "Menu-Dependent Self-Control," Boston University working paper, June 2010.

Noor, J., and L. Ren, "Temptation and Social Preference," Boston University working paper, November 2011.

Week 5. Preferences over Menus: Ambiguity Revisited, Etc.

Ahn, D., "Ambiguity without a State Space," *Review of Economic Studies*, 75, January 2008, 3–28.

Gadjos, T., T. Hayashi, J.-M. Tallon, and J.-C. Vergnaud, "Attitude toward Imprecise Information," *Journal of Economic Theory*, forthcoming.

Olszewski, W., "Preferences over Sets of Lotteries," *Review of Economic Studies*, 74, April 2007, 567–595.

Epstein, L., and I. Kopylov, "Cold Feet," *Theoretical Economics*, 2, September 2007, 231–259.

Ergin, H., and T. Sarver, "A Unique Costly Contemplation Representation," *Econometrica*, 78, July 2010, 1285–1339.

Week 6: Epistemic Approaches to Unforeseen Contingencies

*Dekel, E., B. Lipman, and A. Rustichini, "Standard State-Space Models Preclude Unawareness," *Econometrica*, January 1998, 159–173.

Fagin, R., J. Halpern, Y. Moses, and M. Vardi, *Reasoning about Knowledge*, Cambridge: MIT Press, 1995.

Geanakoplos, J., "Game Theory without Partitions, and Applications to Speculation and Consensus," Yale University working paper, 1989.

Heifetz, A., M. Meier, and B. Schipper, "Interactive Unawareness," *Journal of Economic Theory*, 2006, 78–94.

Li, J., "Information Structures with Unawareness," *Journal of Economic Theory*, 144, 977–993.

Modica, S., and A. Rustichini, "Awareness and Partitional Information Structures," *Theory and Decision*, 37, 1994, 107–124.

Modica, S., and A. Rustichini, "Unawareness and Partitional Information Structures," *Games and Economic Behavior*, May 1999, 265–298.

A bibliography on this topic is maintained at

<http://www.econ.ucdavis.edu/faculty/schipper/unaw.htm>

Week 7: Economics and Psychology

Brunnermeier, M., and J. Parker, “Optimal Expectations,” *American Economic Review*, 95, September 2005, 1092–1118.

de Clippel, G., and K. Eliaz, “Reason–Based Choice: A Bargaining Rationale for the Attraction and Compromise Effects,” *Theoretical Economics*, forthcoming.

Jehiel, P., “Manipulative Auction Design,” *Theoretical Economics*, 6, May 2011, 185–217.

Koszegi, B., and M. Rabin, “A Model of Reference–Dependent Preferences,” *Quarterly Journal of Economics*, 121, November 2006, 1133–1165.

Koszegi, B., and A. Szeidl, “A Model of Focusing in Economic Choice,” UC–Berkeley working paper, July 2011.

Spiegler, R., *Bounded Rationality and Industrial Organization*, Oxford University Press, 2011.