

AGEC 604
Fundamentals of Applied Welfare Economics
Spring 2017

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Office Hours:
Tuesday 11:00 a.m. - 1:00PM
Thursday 11:00 a.m. - 1:00 PM

Course Time: Tuesday and Thursday 1:30 p.m. - 2:45 p.m. in Rawls 1071

Course Description:

This course is designed to familiarize students with the basic theory behind applied welfare economics. Concepts including consumer and producer surplus, pareto optimality, externalities, compensation measures, and the theory of the second best will be studied. Students enrolled in the course will be expected to keep abreast of all readings.

Students will complete homework assignments every two weeks. A final examination will be given February 9, 2017. Grading for the class will be determined by the following weights: final exam 75%, homework assignments 20%, and participation in class discussion 5%.

Reading Material:

The selected readings for this class are available for purchase at Copy Mat in the Chauncey Hill Mall.

Section I: Introduction to Applied Welfare Analysis

1. Just, Hueth, and Schmitz (JHS) - Chapters 1 and 2.
2. Bator, Francis M. "The Simple Analytics of Welfare Maximization," American Economic Review, March 1957, pp. 22-59.
3. Cooter, Robert and Peter Rappoport. "Were the Ordinalists Wrong about Welfare Economics?" Journal of Economic Literature, June 1984, pp. 507-530.
4. Feldman, Allan M. - Chapter 3. "Market Exchange and Optimality."

Section II: Compensation Measures and Consumer/Producer Surplus

1. J.H.S. - Chapter 3. "Compensation Principles."
2. J.H.S. - Chapter 4. "Producer Welfare."
3. J.H.S. - Chapter 5. "Consumer Welfare."
4. Hicks, J.R. "The Four Consumer's Surpluses," Review of Economic Studies, 1943, pp. 31-42.
5. Currie, J.M., M.A. Murphy, and A. Schmitz. "The Concept of Economic Surplus and Its Use in Economic Analysis," Economic Journal, December 1971, pp. 741-799.
6. Willig, R.D. "Consumer's Surplus without Apology," American Economic Review, September 1976, pp. 589-597.

Section III: Externalities, Public Goods and Property Rights

1. Bator, Francis M. "The Anatomy of Market Failure," Quarterly Journal of Economics, August 1958, pp. 351-379.
2. Coase, R. "The Problem of Social Cost," in *Economics of the Environment*, Dorfman and Dorfman, eds., pp. 142-272.
3. Turvey, R. "On Divergencies Between Private and Social Cost," Economica, August 1963, pp. 309-313.

4. Demsetz, H. "Toward A Theory of Property Rights," American Economic Review, May 1967, pp. 347-359.

Section IV: Theory of the Second Best

1. Lipsey, R.G. and K. Lancaster. "The General Theory of Second Best," Review of Economic Studies, 1956-57, pp. 11-32.
2. Mishan, E.J. - Chapter 15. "The Problem of Second Best," pp. 98-108.