

Economics Coordination (ECON 490):
Spring 2018: *Section F3: TR 2:00-3:20 pm, 206 DKH*
Department of Economics • UIUC
Syllabus

Class Compass Site: <https://compass2q.illinois.edu/>

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Objective: In this course, we try to use the core concepts of economics and game theory to shed light on a fundamental question: *how can social interactions (market or non-market) be structured so that people are free to choose their actions while avoiding outcomes that none would have chosen?* The coordination failure occurs when the individuals find the aggregate effect of the decentralized decision making to be undesirable. This course will cover the types and sources of coordination failure and the institutions developed to solve this problem.

Prerequisites: Microeconomics at intermediate level & calculus I

Textbook: There is no **required** textbook. However, some of the lectures will be based on the following texts. I will also provide you with copies of some readings.

- The Economy by the CORE project: <http://core-econ.org/>.
For free registration go to: <http://read.core-econ.org/register>
- Bowles, Samuel. *Microeconomics: Behavior, Institutions, and Evolution*. Princeton University Press. 2003

Grades:

Grades will be based on homework assignments (20%), a midterm exam (35%) and a cumulative final (45%).

Grades Cutoffs: A +/- scale will be used. The cut-offs for +/- are as follows (there will be adjustments based on the performance of the class):

A+	A	A-	B+	B	B-	C+	C	C-	D+	D	D-
≥97%	≥93%	≥89.5%	≥87%	≥83%	≥79.5%	≥77%	≥73%	≥69.5%	≥67%	≥63%	≥59.5%

Homework: The assignment with the lowest grade will be dropped. All assignments should be prepared neatly and professionally:

- Papers should be stapled.
- Assignments should contain the following information on the **right-hand corner** of the page: your name, assignment identification and date.
- Assignments that are sloppy, torn from spiral-bound notebooks, or which are illegible, or unstapled, will be graded down.
- No late assignment will be accepted.

Exams: Exams are tentatively scheduled for the following dates. If you can't take a test because of illness, you have to provide me with a formal statement from a **doctor**, in addition to the note from the Emergency dean. The doctor's statement should explain why your particular illness prevents you from taking the test on the date specified below.

- **Mid Term:** Tuesday March 7, During class time
- **Final Exam:** Friday, May 4, 8:00-11:00 am, in rooms TBA

Attendance:

- Attendance is required. I usually take attendance at the beginning of the lecture. Please try to be on time. In case you are late, take the first available seat and try not to disrupt the class.
- Except for an emergency, don't leave the lecture before it ends. In case there is something important, that makes you to leave the lecture early, please tell me about it before the beginning of the lecture.
- **PLEASE TURN OFF YOUR CELL PHONE DURING LECTURE.**

Academic Integrity:

The University's rules of academic honesty will apply to all examinations and written assignments in this class. See the Code on Campus Affairs at:

http://studentcode.illinois.edu/article1_part4_1-401.html

Disability Accommodations:

To obtain disability-related academic adjustments and/or auxiliary aids, students with disabilities must contact the course instructor and the Disability Resources and Educational Services (DRES) as soon as possible. To contact DRES you may visit 1207 S. Oak St., Champaign, call 333-4603 (V/TTY), or e-mail a message to disability@uiuc.edu."

How to respond to an emergency: *run/hide/fight:* <http://police.illinois.edu/emergency-preparedness/run-hide-fight/>

Topics: *the sequence or the topics covered are subject to change.*

- 1 Social Order: Introduction
- 2 Why Models? A Simple Model of Economic Growth
- 3 History of Ideas: hierarchies, markets

- 4 How competitive markets work
- 5 Modeling Social interactions:
 - 5.1 Game theory:
 - 5.1.1 The structure of social interactions:
 - 5.1.1.1 Cooperative and non-cooperative games.
 - 5.1.1.2 Pure common interest & pure conflict games
 - 5.1.2 Normal form: Dominant strategies and Nash Equilibrium
 - 5.1.3 Sequential games: subgame perfect equilibrium.
 - 5.2 Pareto-Comparisons and Pareto- efficiency
- 6 Preferences:
 - 6.1 Rationality & self-regarding preferences
 - 6.2 Social preferences: other- regarding preferences: Reciprocity, Altruism & Spite.
- 7 Coordination problems & Institutional design:
 - 7.1 Coordination and Conflict: an example
 - 7.2 Coordination Failures: source and types
 - 7.3 The common property resource problem:
 - 7.3.1 Privatization
 - 7.3.2 Third Party intervention: Tax (subsidy), regulation.
 - 7.3.3 Local Interactions
 - 7.4 Team Production
 - 7.5 A taxonomy of coordination problems
- 8 Bargaining Breakthrough & Breakdowns
 - 8.1 The Coase Theorem
 - 8.2 Organizational Rents & Bargaining
 - 8.3 Organizational rent-seeking
 - 8.4 The inefficiency of bargaining in a *war of attrition*
 - 8.5 Conflicts of interest & bargaining breakdowns
- 9 Exchange: Contracts, Norms & Power
 - 9.1 Market Norms
 - 9.2 Asymmetric information
 - 9.3 A model of principle-agent interaction
 - 9.4 Contracts & Behavior in Markets