

Econ 4170, Fall 2018
Marc Santugini
Economics of Risk, Uncertainty, and Information
Tuesday and Thursday, 2:00--3:15PM
Monroe 124

THE RULES

The course covers the principle areas of the field of risk, uncertainty and information. We begin with individual decision-making under risk. We provide an introduction to the theory of preferences among lotteries, including the expected utility framework as well as the concepts of riskiness and risk aversion. Applications include portfolio choice, the demand for insurance, precautionary savings, and the theory of production under risk. We then turn to market equilibrium under risk and define the concept of rational expectations. Two main applications are the behavior of the firm(s) facing risk under different market structures (e.g., perfect competition, oligopoly) and risk sharing under symmetric information. We finally consider situations of uncertainty (different from situations of risk) and information. We first look at decision making and risk sharing under asymmetric information. We then study decision-making when agents are also Bayesian learners.

The prerequisite for this course is ECON 3010 or 3110, and ECON 3020.

There is no required textbook.

Your grade is based on attendance (20%), a midterm exam(40%), and a final exam (40%).¹ Attendance is mandatory. To check your attendance, there will be a quiz at the end of every lecture. To account for illnesses, I will drop your lowest two scores. **If you do not plan to attend the lectures or if you anticipate that you will be often absent, then you should consider dropping the class.**

My office is 213 Monroe Hall. I hold regular office hours on Mon and Wed, 12:00--2:00PM. You can make an appointment to see me at other times if you have a conflict during regular office hours. Send email to ms3ae@virginia.edu.

¹ If you are unable to take the midterm exam at the scheduled time because of intercollegiate competition, illness, or an emergency, you must notify me of your situation in advance (unless it is an extreme emergency).

TOPICS TO BE COVERED:

- Risk.
 - Expected Utility Framework.
 - Risk aversion and riskiness.
 - Portfolio model.
 - Production.
 - Real and financial decisions of the firm.
 - Consumer problem.
 - Risk sharing.
- Rational expectations equilibrium.
- Bayesian learning.
 - Passive Learning.
 - Experimentation/signal jamming.
 - Rational expectations with learning.

Midterm: Thursday, October 18, 2018.

Final: Monday, December 17, 2018, 9:00AM—12:00PM.