

Université Paris 1 Panthéon - Sorbonne

Department of Economics

Microeconomics: Uncertainty and Information

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Class Website: <http://christosaioannou.com/UncertaintyandInformation.html>

Description

This is an introductory course that offers an overview on topics based on uncertainty and information. The course will acquaint you with valuations, asset pricing, financial markets, moral hazard, adverse selection to name a few. These topics will be developed based on the notions that investors and managers are generally rational and the prices of securities are generally *efficient*. Rationality means that agents update their beliefs correctly, in the manner described by Bayes' Law when they receive new information, and (ii) given their beliefs, make choices that are normatively acceptable in the sense that they are consistent with the expected utility framework. This traditional framework is appealing and simple hence it would be very comforting if its predictions were confirmed in the data. In recent years, however, anecdotal evidence as well as theoretical and empirical research has shown this paradigm to be insufficient to describe various features of actual markets. I thus also examine how the insights of behavioral economics complement the traditional paradigm and shed light on the behavior of asset prices, and various Wall Street institutions and practices.

Structure

The course includes lectures and tutorials (TDs). The TDs will be devoted, in part, to exercises and questions, and, partly, to experiments so that students assimilate the concepts of the course. The course grade will be based on the final examination (50%), participation (5%), a quiz (20%), and a group presentation (20%). The group presentation will be based on a popular game. The game for each group will be provided in class. The presentation will encompass the exposition of the actual game (i.e. features and dynamics), the theoretical predictions, and the empirical findings. In addition, I expect group members to come up with an interesting and novel question on this game. The time and date of the presentations will be announced later in the semester. I do expect that all group members are involved in the preparation of the presentation though which group members will be presenting is entirely up to you. The presentation should last approximately 15 minutes.

Preparatory Readings and Practice Problem Sets

The course will be based on slides that are available on the aforementioned website and notes that are delivered during lectures. Practice problem sets (provided online) enable students to understand the type of questions that will be asked in the quiz and the final examination.

Tentative Schedule

Topic 1: Logic and Set Notation, Game Theory

2: Expected Utility Framework

3: Comparison of Payoff Distributions in Terms of Return and Risk

4: Valuation under Uncertainty

5: Asset Pricing, Efficient Capital Markets

6: Information Structures and the Value of Information

7: General Equilibrium Under Uncertainty

8: Adverse Selection

9: Moral Hazard

10: Prospect Theory

11: Behavioral Economics: An Introduction