Class Time: Monday and Wednesday, 2:00 PM – 3:30 PM
Instructor: Thibault FALLY
Class Room: Dwinelle 210
Class Website: bcourse
Exam: Tentatively March 5th, 2-4pm
Office: 301 Giannini Hall
Office Hours: Friday, 3-5 PM and by appointment
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Course Overview

First half of semester: Welfare analysis: consumers, producers and trade.

This module will examine the basic concepts underlying the measurement of welfare changes from both a partial and general equilibrium perspective. The module will draw from consumer theory, welfare, public economics, and trade. The goal is to increase students’ familiarity with the basic building blocks of welfare analysis, and to gain experience with both partial and general equilibrium approaches. The course will have an important focus on applications. It aims at providing modeling tools, various examples of what we can learn from the theory, and how we can use the theory to interpret empirical findings.

Topics

1. Demand, wealth and price effects in practice
   a. Examples of preferences and demand functions
   b. Price effect and Hicksian demand
   c. Non-homotheticity and Engel curves
   d. Practical example of Giffen goods (Jensen and Miller, 2008)
   e. Hamilton method: application to China (Nakamura, Steinsson and Liu, 2016)

2. Six practical applications of revealed preferences
   1) Testing rationality; 2) Shape of indifference curves;
   3) Recovering preferences; 4) Comparison between Laspeyres and Paasche indexes;
   5) Tax deadweight loss: food stamp example; 6) Welfare gains from trade,
3. **Tools to measure consumer welfare**
   a. Equivalent and compensating variations, consumer surplus
   b. Willingness-to-pay, willingness-to-accept
   c. Quick intro to price indexes (Paasche, Laspeyres, Tornqvist, Sato-Vartia)

4. **Welfare on the supply side**
   a. Returns to scale: fixed costs, externalities
   b. Examples of production functions and costs functions
   c. Producer surplus, Hotelling’s lemma
   d. Factors of production: Shephard’s lemma, MPL, MPK
   e. Profits and free entry: example with CES preferences and monopolistic competition

5. **Welfare gains from trade in two-goods models**
   a. PPF and factor markets: shape and practical examples
   b. Aggregate gains from trade: illustrations
   c. Returns to factors, Stolper-Samuelson theorem
   d. Rybczynski theorem and Dutch disease

6. **Taxation, theory of second best**
   a. Tax incidence
   b. Tax deadweight loss and second-order approximations
   c. Optimal taxation: some examples; General-equilibrium effect of a tax or tariff
   d. Theory of second best: some examples

**Prerequisites**

Econ 201A

**Problem sets**

There is one problem set due each week, to be handed in class or by email. These problem sets are posted on bcourse. They vary in difficulty. Due dates:

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<th>Problem Set</th>
<th>Due Date</th>
<th>Description</th>
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<td>PS1</td>
<td>Wednesday 24-Jan</td>
<td>Additive and implicitly-additive preferences</td>
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<td>PS2</td>
<td>Wednesday 31-Jan</td>
<td>Choke prices</td>
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<td>PS3</td>
<td>Wednesday 7-Feb</td>
<td>Deadweight loss and consumer surplus</td>
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<td>PS4</td>
<td>Wednesday 14-Feb</td>
<td>Returns to factors in closed and open economies</td>
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<td>PS5</td>
<td>Monday 26-Feb</td>
<td>Gains from trade in Krugman model</td>
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Books

The lectures will not rely on specific books. However, the following books may be useful for some of the lectures (more information on these books is provided on the course webpage):
- Hal Varian (1992), Microeconomic Analysis
- R. Feenstra (2003), Advanced International Trade, chapters 1, 2 and 5

Papers

We will rely on recent papers to provide examples throughout the course. A tentative and preliminary list of references includes:

Background papers posted on bcourse:
- Hanoch (1975), “Production and Demand Models with Direct or Indirect Implicit Additivity”, *Econometrica*
- Stolper and Samuelson (1941), “Protection and Real Wages”, the *Review of Economic Studies*