

ECONOMICS: THE BIG PICTURE by Sasha Vostroknutov 9/14/2004

MICRO CLASSICAL

Individual decision making

Rationality and the Theory of firm: optimal decisions under constraints (consumers, firms)

Terms: preferences, utility function, budget constraint, production function, inputs, outputs.

The market and market power: consumers meet firms

Perfect competition:
many consumers & firms
Monopoly:
many consumers / one firm
Monopsony:
one consumer / many firms

Terms: individual / aggregate demand / supply, price-taking behavior, price-“setting” behavior.

Economy as the collection of markets

General Equilibrium theory:
all markets are in equilibrium at the same time.
Terms: supply = demand, market equilibrium.

Welfare economics: what is good?

Efficiency criteria
egalitarian – max min utility,
utilitarian – max aggr. utility, Pareto

Comparative statics:

What happens to the welfare when something changes (tastes, natural conditions)?
Governmental regulation (taxes, social planner versus free markets)
Market failures (pollution, public goods)
Terms: substitute/ complement goods, economic surplus, dead weight loss, externalities.

MODERN

Game theory

Optimal decisions in strategic situations (markets in between - oligopoly: many consumers – few firms).

Terms: oligopoly (duopoly), Nash equilibrium.

Contract theory

Principal-agent problems with hidden information

(employer-employee, insurer – insured, lender – borrower)

Mechanism design

Designing optimal auctions, making existent markets efficient, inventing rules for emerging markets.

Economics meets psychology, sociology, neuroscience

MACRO CLASSICAL

Studies countries, economic aggregates and how they are influencing each other.

Growth theory

Models of how GDP (Gross Domestic Product) is changing depending on economic aggregates (inflation, unemployment, interest rate, technology)

Monetary policy

The models of how growth depends on interest rate, inflation. How should central bank choose them?

Fiscal policy

Models of how growth depends on tax burden. How should government set it?

MODERN (MICROFOUNDATIONS)

Trying to connect Micro and Macro by devising micro-models, which would generate macro results.

International Trade

How does the welfare / rate of growth change when we open borders for trade?

ECONOMETRICS

Statistical methods applied to economic data. Development of special methods inside statistics to deal specifically with economic problems.

On Micro-level

Methods of analyzing data on individual firms, consumer choices.

On Macro-level

Methods of analyzing data on GDP, inflation unemployment etc. for various countries.

APPLIED ECONOMICS

Applies all the above theory to check if it fits the reality using econometrics. Gives feedback to develop new theory.

Industrial organization

Models of particular (real) markets and market structures. Models of organization of the firm (managers, labor unions etc.)

Applied Macro

Fitting macro-models to country data through econometrics.

Experimental economics

Running experiments on undergraduates in order to check the validity of game theoretic model.