

Economics 242: Markets With Frictions

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The objective of the course is to introduce students to a new and increasingly large area of economics.

The so-called standard approach to economics implies that individuals do not interact directly with other individuals, but directly with markets. They take prices in each markets as given and reveal how much they will supply, or demand, of any good when a price is called. As everybody knows equilibrium occurs when the quantities supplied equals the quantities demanded for each good. The analysis of such equilibria has led many profound insights.

In market with frictions literature it is assumed that individuals interact with other individuals directly. Further, contacting other individuals you wish to trade with is a time consuming and costly process. For example, an individual may visit several stores while looking to purchase a hat, or you may write to many firms while looking for a job when you graduate. The object of the study of market with frictions is to investigate equilibria within such a framework. The market with frictions approach can be applied to most traditional economic situations

In the course, I will introduce to this new approach and show how it can be applied to provide interesting answers to questions that cannot be addressed using the standard market model.

Topics to be covered

1. The Strengths and Weaknesses of the Standard Market Framework
2. Single Sided Search Theory
3. A Simple Equilibrium Model of Search
4. A Consumer Market Model of Price Distribution
5. A Macroeconomic Model of Search
6. A Labor Market Model
7. More on Labor Market Models
8. Marriage Markets

With each of the topics covered I will post notes and articles on Canvas.

There will be two mid term examinations (25% each) and an essay (50%) that must be completed by the end of the semester.

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