
ECON 4050-001

Market Design

Fall 2020

Instructor: Oleg Baranov (*Assistant Professor, Department of Economics*)

Instructor Info

Class Info

Office: ECON 14A

Voice: 303.492.7869

Class Location: *N/A, online class*

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mostly economics journal articles, or popular press articles, that provide some context for the class. All listed papers (at least large parts of them) should be readable.

4 Informal Readings

A book "*Thinking Strategically*" by Avinash Dixit and Barry Nalebu is a very famous book suitable for the Game Theory part of the class. A book "*Who Gets What / and Why: The New Economics of Matchmaking and Market Design*" by Alvin E. Roth is an easy read suitable for the Matching part of the class.

5 Prerequisites

The course is available to students who have completed ECON 3070 Intermediate Microeconomic Theory. The class does not require prior knowledge of mathematical concepts beyond the ones covered in ECON 1088. However, the course includes a great deal of math, economic theory and extensive strategic arguments. Students should expect theoretical arguments in every class.

6 Assessment

There will be two midterm exams, the final exam and ten problem sets.

Class Games	<i>10 - 15 games</i>	10% of the grade (participation)
Problem Sets	<i>10 problem sets</i>	30% of the grade (dropping the lowest score)
Midterms	<i>2 midterms</i>	20% each
Final Exam		20%

There will be no make-up exams. A student who misses a midterm due to an excused absence will have the additional weight shifted to the final. Feel free to form study groups to review and discuss lecture/reading materials, and homework assignments **but you must submit individual work for grading.**

Final Exam Policy: Every student in the course has to take the Final Exam and score at least 20 points (out of 100 points). **Any student who scores less than 20 points fails the class.**

7 Tentative Course Outline

Week	Covered Material	Slidepack
MODULE 1: GAME THEORY		
1	Dominance and Iterative Dominance	1a
2 - 3	Nash Equilibrium	1b
4	Mixed Strategies & Dynamic and Bayesian Games	1c
5	MIDTERM I	
MODULE 2: MATCHING		
6	Two-Sided Matching	2a
7	Two-Sided Applications	2b
8	One-Sided Matching, Kidney Exchange	2c
9	School Choice	2d
10	MIDTERM II	
MODULE 3: AUCTIONS		
11 - 12	Auction Theory	3a
13	Auction Design	3b
13	Common-Value Auctions	3c
14	Multi-Item Auctions	3d
15	Sponsored Search Auctions	3e
16	Financial Exchanges	3f
	FINAL EXAM	

8 Tutors

The Economics Department provides a free drop-in tutorial lab which provides assistance on all core courses in the major, and occasionally on other undergraduate courses in the Department. See appropriate links here <https://www.colorado.edu/economics/undergraduate-program>.

9 Detailed Course Outline

1. Overview of the class (syllabus, overview of the content, introduction into game theory and market design)

Game Theory Part

2. Static Games (dominant and dominated strategies, iterative elimination of dominated strategies, Nash Equilibrium)
3. Dynamic Games (subgame perfect equilibrium and backward induction)
4. Incomplete Information (simple games with incomplete information, concept of Bayesian Nash equilibrium)

Matching Part

5. Introduction to Matching Markets ("marriage market" and one-to-one matching, stable matches, the Deferred Acceptance algorithm, existence result, optimal matches for both sides of the market, incentives of participants, roommate problem)

Readings:

"College Admissions and the Stability of Marriage" by David Gale and Lloyd Shapley (1962)

6. Stable Matching and Orderly Markets (stable matchings and orderly markets, the problem of market unravelling, case study: medical residents and the NRMP, medical fellowships, law clerks, college admission)

Readings:

"What Have We Learned from Market Design" by Alvin Roth (2008)

"The Re-Design of the Matching Market for American Physicians: Some Engineering Aspects of Economic Design" by Alvin Roth and Elliott Peranson (1999)

7. House Allocation and Kidney Exchange (House Allocation Problem, efficient outcomes and the core, serial dictatorship, the top trading cycles algorithm and its variations, kidney exchanges)

Readings:

"A Kidney Exchange Clearinghouse in New England" by Alvin Roth, Tayfun Sonmez and Utku Unver (2005)

"Kidney Exchange: A Life-Saving Application of Matching Theory" (2005)

8. School Choice (School Choice Problem, the Boston algorithm and its incentives, deferred acceptance and top trading cycles as alternatives, problem of ties, case studies: NYC and

Auctions Part

9. Introduction to Auction Theory (private value model, first and second price sealed bid auctions, all pay auctions, ascending auctions, the revenue equivalence theorem, eBay auctions - equivalence and nonequivalence to the second-price auction)

Readings:

"The Bidding Game" National Academy of Sciences Beyond Discovery Report (2003)

10. Designing Good Auctions (how to design an auction, facilitating entry, reserve prices, bidder subsidies, collusive bidding, optimal auction design)

Readings:

"What Really Matters in Auction Design" by Paul Klemperer (2002)

11. Common Value Auctions (common value model, the winner's curse, examples and applications, aggregation of information, application to oil lease auctions)

Readings:

"An Empirical Study of an Auction with Asymmetric Information" by Ken Hendricks and Robert Porter (1988)

"Anomalies: The Winner's Curse" by Richard Thaler (1988)

12. Multi-Unit Auctions (multi-unit auctions, uniform price, pay-as-bid price (discriminatory), demand reduction, Vickrey pricing and efficient auction design, case study: treasury auctions)

13. Sponsored Search Auctions (the sponsored search market, Google's advertising auction, bidding incentives and equilibria, other ways to run the auction, Facebook's Vickrey auction, optimal design in search auctions (Yahoo case study))

Readings:

"The Economics of Internet Search" by Hal Varian (2007)

"Online Advertising: Heterogeneity and Competition in Market Design" by Jonathan Levin and Paul Milgrom (2010)

14. Financial Markets and High-Frequency Trading (electronic markets for trading equity and other financial securities, the use of auctions for IPOs, real-time trading and market clearing, competition between exchanges)

Readings:

"Concept Release on Market Structure" by SEC (2010)

"The High-Frequency Trading Arms Race: Frequent Batch Auctions as a Market Design Response" by Eric Budish, Peter Cramton and John Shim

10 University Policies

CLASSROOM BEHAVIOR

Both students and faculty are responsible for maintaining an appropriate learning environment in all instructional settings, whether in person, remote or online. Those who fail to adhere to such behavioral standards may be subject to discipline. Professional courtesy and sensitivity are especially important with respect to individuals and topics dealing with race, color, national origin, sex, pregnancy, age, disability, creed, religion, sexual orientation, gender identity, gender expression, veteran status, political affiliation or political philosophy. For more information, see the policies on [classroom behavior](#) and the [Student Code of Conduct](#).

REQUIREMENTS FOR COVID-19

As a matter of public health and safety due to the pandemic, all members of the CU Boulder community and all visitors to campus must follow university, department and building requirements, and public health orders in place to reduce the risk of spreading infectious disease. Required safety measures at CU Boulder relevant to the classroom setting include:

- maintain 6-foot distancing when possible,

- wear a face covering in public indoor spaces and outdoors while on campus consistent with state and county health orders,

- clean local work area,

- practice hand hygiene,

- follow public health orders, and

- if sick and you live off campus, do not come onto campus (unless instructed by a CU Healthcare professional), or if you live on-campus, please alert [CU Boulder Medical Services](#).

Students who fail to adhere to these requirements will be asked to leave class, and students who do not leave class when asked or who refuse to comply with these requirements will be referred to [Student Conduct and Conflict Resolution](#). For more information, see the policies on [COVID-19 Health and Safety](#) and classroom behavior [classroom behavior](#) and the [Student Code of Conduct](#). If you require accommodation because a disability prevents you from fulfilling these safety measures, please see the "Accommodation for Disabilities" statement on this syllabus.

Before returning to campus, all students must complete the [COVID-19 Student Health and Expectations Course](#). Before coming on to campus each day, all students are required to complete a [Daily Health Form](#).

Students who have tested positive for COVID-19, have symptoms of COVID-19, or have had close contact with someone who has tested positive for or had symptoms of COVID-19 must stay home and complete the [Health Questionnaire and Illness Reporting Form](#) remotely. In this class, if you are sick or quarantined, let me know if the new circumstances prevents you from completing the coursework on time.

ACCOMMODATION FOR DISABILITIES

If you qualify for accommodations because of a disability, please submit your accommodation letter from Disability Services to your faculty member in a timely manner so that your needs can be addressed. Disability Services determines accommodations based on documented disabilities in the academic environment. Information on requesting accommodations is located on the [Disability Services website](#). Contact Disability Services at 303-492-8671 or dsinfo@colorado.edu for further assistance. If you have a temporary medical condition or injury, see [Temporary Medical Conditions](#) under the Students tab on the Disability Services website.

PREFERRED STUDENT NAMES AND PRONOUNS

CU Boulder recognizes that students' legal information doesn't always align with how they identify. Students may update their preferred names and pronouns via the student portal; those preferred names and pronouns are listed on instructors' class rosters. In the absence of such updates, the name that appears on the class roster is the student's legal name.

HONOR CODE

All students enrolled in a University of Colorado Boulder course are responsible for knowing and adhering to the Honor Code. Violations of the policy may include: plagiarism, cheating, fabrication, lying, bribery, threat, unauthorized access to academic materials, clicker fraud, submitting the same or similar work in more than one course without permission from all course instructors involved, and aiding academic dishonesty. All incidents of academic misconduct will be reported to the Honor Code (honor@colorado.edu); 303-492-5550). Students found responsible for violating the academic integrity policy will be subject to nonacademic sanctions from the Honor Code as well as academic sanctions from the faculty member. Additional information regarding the Honor Code academic integrity policy can be found at the [Honor Code Office website](#).

SEXUAL MISCONDUCT, DISCRIMINATION, HARASSMENT AND/OR RELATED RETALIATION

The University of Colorado Boulder (CU Boulder) is committed to fostering a positive and welcoming learning, working, and living environment. CU Boulder will not tolerate acts of sexual misconduct, intimate partner abuse (including dating or domestic violence), stalking, or

contact the Office of Institutional Equity and Compliance (OIEC) at 303-492-2127 or cureport@colorado.edu. Information about the OIEC, university policies, [anonymous reporting](#), and the campus resources can be found on the [OIEC website](#).

Please know that faculty and instructors have a responsibility to inform OIEC when made aware of incidents of sexual misconduct, discrimination, harassment and/or related retaliation, to ensure that individuals impacted receive information about options for reporting and support resources.

RELIGIOUS HOLIDAYS

Campus policy regarding religious observances requires that faculty make every effort to deal reasonably and fairly with all students who, because of religious obligations, have conflicts with scheduled exams, assignments or required attendance. In this class, please see me at least two weeks prior to any conflicts due to religious observances.

See the [campus policy regarding religious observances](#) for full details.