

M.Sc. Economics

Code:		Type:	M.Sc. 2 nd year, winter 2010/11
Title:	Collective Preference and Choice (Elective course)		
Lecturer:	Shmuel Nitzan		
ECTS:	3	Contact hours (per term):	20
Semester:	Winter 2010/11	Frequency of the lecture:	10 units
Dates:	March 7, 2011 until March 22, 2011		
Prerequisites:	/		

Learning objectives (What are the intended learning outcomes? Which skills will be acquired?):

The topic of social preference and choice is relevant and of significance to several disciplines in the social sciences and, in particular, to economics where many decisions affect many individuals and are reached by these individuals or by their representatives. For example, consumption decisions are made by family members, business strategy decisions are reached by the board of directors of the company and decisions on the economic policy of the government are made by committees of experts. The study of this subject requires exposure to some interesting challenging problems. The clarification of the main problems and of their significance is the main objective of this course.

The introductory part of the course has three objectives: to explain the basic reasons for the problematic nature of preference and decision aggregation; to provide a brief overview of the problems presented in the course; to clarify the relationship between preferences and choice (behavior). We then deal with the classical social choice model where individuals (voters, decision makers) have different preferences. In this context, we examine the following problems: Do social preferences exist? What is the desirable social choice rule? How can the problem of majority tyranny be resolved?

In the last part of the course we deal with individuals who share the same preferences, but differ in their decisional skills under uncertainty. The analysis in this part uses the uncertain dichotomous choice mode focusing on the following problems: Is the expert rule preferred to the simple majority rule? What is the optimal decision rule?.

Content (Which professional competence and which contents will be imparted?):

The course consists of five parts (ten lectures)

I. Introduction

Lectures 1/2:

A "bird's view" of the aggregation problems on which we focus and the reason for them. The basic concepts of preferences, choice and rational behavior and the relationship between preference and choice.

II. Aggregation of Preferences

Lectures 3/4:

Social preferences - The classical problems (The Impossibility Theorems of Arrow and Sen). The problem of truthful preference revelation - Gibbard- Satterthwaite impossibility theorem.

Lecture 5:

What is the desirable collective decision rule? - The axiomatic approach. The case of simple majority rule (May's Theorem) and the Borda rule (Young's Theorem).

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III. Aggregation of Decisions

Lecture 6:

Paradoxes of voting

Lecture 7:

What is the desirable rule? - Compromising with the unanimity rule and the metric approach. The case of the plurality and Borda rules.

Lecture 8:

What is the desirable rule? Compromising with the problems of majority tyranny and erosion in the majority principle. The appeal of the inverse plurality rule.

IV. Aggregation of Judgments

Lecture 9:

Simple majority rule vs. the expert rule (Condorcet Jury Theorem and its possible extensions).

Lecture 10:

The optimal decision rule in an uncertain dichotomous choice setting.
 Summary – The ABC(D) of the aggregation problems

Teaching approach (Description of the learning and teaching methods):

Lecture

Language of instruction (Information on the language of teaching):

English

Obligatory literature (E.g. scripts, books, articles, cases, papers):

Nitzan, S., *Collective Preference and Choice*, Cambridge University Press, 2010.

Lectures 1/2: Chapters 1, 2, 3

Lectures 3/4: Chapters 4, 10.

Lecture 5: Chapter 5.

Lecture 6: Chapter 7.

Lecture 7: Chapter 6.

Lecture 8: Chapter 8.

Lecture 9: Chapter 11.

Lecture 10: Chapter 12.

Additional literature (E.g. books, articles, cases, papers):

Lectures 1/2.

Sen, Introduction and Chapters 1 and 1*.

Lecture 3/4.

Arrow's impossibility theorem

Sen, Chapters 3 and 3*

Resolving the paradox by preference restriction – single peakedness.

Feldman, pp. 161-175.

Sen's Paretian-liberal paradox

Sen, Chapters 6 and 6*.

Harel, A. and S. Nitzan, The Libertarian Resolution of the Paretian-Liberal Paradox, *Journal of Economics*, 1987, 337-352.

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Truthful preference revelation - Gibbard- Satterthwaite impossibility theorem

Feldman, pp. 196-215.

Reny, P.J. Arrow's Theorem and the Gibbard-Satterthwaite Theorem: A Unified Approach. *Economics Letters*, 70(1), 2001, 99-105.

Lecture 5.

May, K., Independent Necessary and Sufficient Conditions for Simple Majority Decision, *Econometrica*, 1952, 680-684.

Lecture 8.

Baharad, E and S. Nitzan, Ameliorating Majority Decisiveness Through Expression of Preference Intensity, *American Political Science Review*, 96(4), 2002, 745-754.

Reading list

1. Baharad, E and S. Nitzan, Ameliorating Majority Decisiveness Through Expression of Preference Intensity, *American Political Science Review*, 96(4), 2002, 745-754.
2. Feldman, A., *Welfare Economics and Social Choice Theory*, Kluwer, 1984
- 3.. Harel, A. and S. Nitzan, The Libertarian Resolution of the Paretian-Liberal Paradox, *Journal of Economics*, 1987, 337-352.
4. May, K., Independent Necessary and Sufficient Conditions for Simple Majority Decision, *Econometrica*, 1952, 680-684.
5. Reny, P.J. Arrow's Theorem and the Gibbard-Satterthwaite Theorem: A Unified Approach. *Economics Letters*, 70(1), 2001, 99-105.
6. Sen, A., *Collective Choice and Social Welfare*, Holden Day Inc., Cambridge, 1970.

Mode of examination (Mode of the examinations and tests (e.g. oral or written examination, lecture, homework, papers, class participation):

One written final examination.

Grading (A maximum of 20% outside the class room):

100% - final examination

Special features (E.g. excursion, guest speaker):

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Course website:

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