

CORE MICROECONOMICS 2016-17

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With Prelims but a distant memory, you are now ready to delve into some of the more sophisticated areas of Micro. While the subject matter might seem abstract and overly technical at times, remember that the skills you will learn over the term will be invaluable to you as an economist. This course will introduce you to a core set of techniques and methods, which you must master before you can head off and apply economic analysis to the various topics that you might be interested in, from development economics to family economics to monetary economics. To help you make connections between the material we will study and the aspects of the “real world” that you are interested in, I am (in the process!) of collecting articles and podcasts for you to delve into to help bring the subject to life (see <https://abiadams.com/teaching/finals-micro/>).

ARRANGEMENTS

The course will proceed through a mixture of tutorials, classes, and lectures. The tutorials and classes are designed to complement the lecture series given by the Department. If you want to stand a good chance of mastering the material, you must attend the lectures.

TUTORIAL WORK: Work for tutorials must be handed in at the Lodge by 5pm on Tuesday. Late work will not be accepted and you will not be able to attend tutorials if you do not hand in your problem set.

READINGS

Somewhat frustratingly, there is no one textbook for the course. On the department website, a full list of readings, at varying degrees of difficulty, is listed. Here I give what I consider the ‘ideal’ reading for each week. On my website, you can find links to additional articles and blog pieces that highlight particular applications or present the material in a more intuitive way.

TABLE 1. Timetable

	Monday	Tuesday	Wednesday	Thursday	Friday
1st	5pm Class			Tutorials	
2nd				Tutorials	
3rd	5.30pm Talk			Tutorials	
4th				Class	
5th	5pm Class			Tutorials	
6th				Tutorials	
7th	5pm Class			Tutorials	
8th				Tutorials	

1. GENERAL EQUILIBRIUM

Reading:

- Snyder & Nicholson, *Microeconomic Theory: Basic Principles and Extensions*, p441-466 (on SSL e-Readings)
- Varian, *Microeconomic Analysis*, 3rd Ed, C18
- Krugman, Obstfeld & Melitz, *International Economics*, 9th Ed, C3-5.

Questions:

- Problem Set 1 : Q5, Q7, Q8

2. WELFARE

Reading:

- Snyder & Nicholson, *Microeconomic Theory: Basic Principles and Extensions*, p466-488
- Gravelle & Rees, *Microeconomics*, 2nd Ed, C17

Questions:

- Problem Set 2 : Q2, Q5, Q8
- Essay Plan: *How can a policy-maker determine and achieve the optimal distribution of resources when lump-sum taxation is possible? What can be done when it is not?*

3. APPLIED WELFARE

Reading:

- Hindricks & Myles, *Intermediate Public Economics* C8, C10
- Hepburn, C. (2010) “Environmental Policy, Government and the Market”, *Oxford Review of Economic Policy*
- Farrell, J. (1987) “Information and the Coase Theorem”, *Journal of Economic Perspectives*

Questions:

- Problem Set 3 : Q2, Q5, Q7
- Essay Plan: *Should Wikipedia be taxed or subsidised?*

4. GAME THEORY

Reading:

- Varian, *Intermediate Microeconomics*, 9th Ed, C29
- Dixit, Skeath & Reiley, *Games of Strategy*, 4th Ed, C3-5, 10

Questions:

- Problem Set 4 : Q6, Q8, Q9, Q11

5. INDUSTRIAL ORGANISATION

Reading:

- Tirole, *The Theory of Industrial Organisation*, C5, 8, 9.4

Questions:

- Problem Set 5 : Q1, Q2
- Essay: *How can firms strategically deter entry? In what circumstances are they likely to do better by accommodating entry?*

6. RISK & EXPECTED UTILITY

Reading:

- Gravelle & Rees, *Microeconomics*, 3rd Ed, C17, 19A-D
- Van Zandt, *Introduction to the Economics of Uncertainty & Information*, C1-5, 7
- Dixit, Skeath & Reiley, *Games of Strategy*, 4th Ed, C8.1

Questions:

- Problem Set 6 : Q3, Q7,
- Problem Set 6 : Essay Style Question 8

7. ADVERSE SELECTION, SCREENING, AND SIGNALLING

Reading:

- Dixit, Skeath & Reiley, *Games of Strategy*, 4th Ed, C8
- Gravelle & Rees, *Microeconomics*, 3rd Ed, C19F, H

Questions:

- Problem Set 7 : Q2, Q3
- Essay plan : *Explain how adverse selection may affect outcomes in an insurance market. What sort of equilibrium could occur and does an equilibrium always exist?*
- Essay plan : *“When prospective employees are able to signal their ability, employers are no better off, employees with lower productivity are definitely worse off, and even employees with higher productivity might be worse off. ” Do you agree? Does it follow that removing the ability to signal would result in a Pareto improvement?*

8. MORAL HAZARD AND INCENTIVES

Reading:

- Dixit, Skeath & Reiley, *Games of Strategy*, 4th Ed, C8
- Gravelle & Rees, *Microeconomics*, 3rd Ed, C19G, 20
- Dixit, Skeath & Reiley, *Games of Strategy*, 4th Ed, C13

Questions:

- Problem Set 8 : Q4
- Essay : “ *Since people can always be induced to work hard with sufficient provision of incentives, moral hazard is not a problem.*” *Discuss.*