

## Part IIB Paper Outlines

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### Part IIB Paper 1 Microeconomic Principles and Problems

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#### Paper content

The paper concerns the application of microeconomics to economic problems. The course consists of five lecture courses (detailed below) that between them cover the following broad topics: the general theory of second best, social cost-benefit analysis, policy evaluation, regulation and contracts, education and health.

#### Aims

The aim of the paper is to illustrate the economic analysis of microeconomic problems and their potential solutions. The lectures incorporate comparative, theoretical and empirical approaches to economic problems and policies. They provide information on both the particular area of economic policy and the nature of the economic analysis that applies to it.

#### Objectives

Students should acquire knowledge of the application of microeconomic principles to the following topics among others: the general theory of second best; social cost-benefit analysis; the Diamond-Mirrlees production efficiency result; contracts and regulation, the provision of publicly provided goods and services such as education and health services; quasi-markets; and policy evaluation techniques and applications.

#### Lecture Courses

##### **Second Best Theory** (Dr TS Aidt, 10 lectures, weeks 1-5, Michaelmas Term)

These lectures will build on the course on General Equilibrium and Welfare Economics from Part IIA and demonstrate how the principles of welfare economics can be applied to the study of optimal policy in a second best world. The focus will be on design of optimal policy rules (in particular for taxation), efficiency results, and tax reform.

##### **Policy Evaluation** (Professor H Low, 8 Lectures, week 1-4, Michaelmas Term)

These lectures will cover econometric techniques relevant to policy evaluation. The focus is on how economists think about causal effects and what are the promises and pitfalls of estimating causal effect in both experimental settings and with observational data. The methods to be covered will include randomised control trials, fixed effects, IV, difference-in-differences, and regression discontinuity. In each case the focus will be on an application of the techniques, drawing from the microeconomics literature in areas such as taxation, welfare benefits, labour, education, health, regulation and trade.

##### **Contracts, Education and Health** (Professor H Low, 12 lectures, weeks 1-6, Lent Term)

These lectures will build on the course on Information Economics from Part IIA and demonstrate how the theory of information economics and other principles of applied welfare economics can be applied to contracts, health and education economics.

##### **Social Cost Benefit Analysis** (Dr TS Aidt, 8 lectures, weeks 1-4, Lent Term)

These lectures will build on the course on General Equilibrium and Welfare Economics from Part IIA and demonstrate how the principles of welfare economics can be applied to social cost benefit analysis. The focus will be on the principles behind social cost benefit analysis, opportunity cost, shadow prices and social discounting.

### **Preliminary reading**

Hindriks, J. and G.D. Myles, 2006. Intermediate Public Economics, MIT Press.  
Stiglitz, J.E. (2000), Economics of the Public Sector, 3rd Edition. W. W. Norton, New York [ML 30 A 37c]  
Cullis, J. and Jones, P. (2009), Public finance and public choice, 3rd Edition. Oxford University Press, Oxford, UK. [ML 27 E 45b]  
Gravelle, H. and R. Rees, 2004. Microeconomics 3rd Edition, [17 A 63c]  
Zweifel, P. and F.Breyer, 1997. Health Economics.  
Becker, G., 1975. Human Capital, 2nd ed.  
Hillman, A.L. (2003), Public Finance and Public Policy, Responsibilities and Limitations of government, Cambridge University Press, Cambridge, UK. [ML 29 E 42]

Each lecturer will provide a detailed reading list for the relevant courses.

### **Supervision**

Supervisions are arranged by Director of Studies who can make use of the supervision classes offered by the Faculty. Eight supervision sheets with suggested supervision questions will be available from the paper web-page. Sample answers for potential supervisors are available from the Directors of Studies section of the Faculty website.

### **Examination**

The examination paper consists of 8 questions. The students are asked to answer 4 of these. Past exam papers are available at the Faculty webpage: <http://www.econ.cam.ac.uk>