

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 three lecture courses (detailed below) that between them cover the following broad topics: The efficiency cost of taxation, optimal commodity taxation, externalities, green tax reform, road pricing, shadow pricing, social cost-benefit analysis, in-kind benefits including education and health, and trade theory and policy.

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: Allocative efficiency and cost-benefit analysis; the general theory of second best, the Diamond-Mirrlees production efficiency result, externalities and public goods; principles of optimal tax design, the social cost of rent seeking, the provision of publicly provided goods and services such as transport infrastructure, education and health services; quasi-markets; trade and trade policy.

Lecture Courses

Applied Welfare Economics: Second Best Theory and Social Cost Benefit Analysis (Dr TS Aidt, 18 lectures, weeks 1-8, 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 and to social cost-benefit analysis. The focus will be on design of optimal policy rules (in particular for taxation), efficiency results, regulation of externalities, road pricing, tax reform and social cost-benefit analysis.

International Trade and Trade Policy (Dr S Jain, 12 lectures, weeks 3-8, Lent Term)

These lectures will build on the course on General Equilibrium and Welfare Economics from Part IIA and develop the theory of international trade and policy in greater detail including applications to markets with imperfect competition.

Applied Welfare Economics: Benefits In-kind (Dr B Wallace 8 lectures, weeks 1-4, 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 the study of publically provided in-kind benefits. The focus will be on health and education economics.

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 28 AB 19c](#)]

Cullis, J. and Jones, P. (2009), *Public finance and public choice*, 3rd Edition. Oxford University Press, Oxford, UK. [[ML 28 AB 1c](#)]

Gravelle, H. and R. Rees, 2004. *Microeconomics* 3rd Edition, [[ML 17 A 63c](#)]

Zweifel, P. and F. Breyer, 1997. *Health Economics*. [[ML 45 A 33b](#)]

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.

Paul Krugman and Maurice Obstfeld, *International economics: theory and policy*, 8th edition, 2009, Addison Wesley.

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

Supervision

Supervisions are arranged by Director of Studies. Supervision sheets will be issued by individual supervisors, but some suggested supervision questions will be available for each lecture course from each lecturer's personal web-page and/or from the course web-page.

Examination

For the 2012 examinations, the Faculty Board has agreed that there will be a reduction in questions set from 10 to 8.

Old exam papers are available at <http://www.econ.cam.ac.uk/intranet/exams/index.html>.