Microeconomics tutorial assignments – Michaelmas term 2014

**Overview**

All of the course assignments are available on Weblearn. Each assignment sheet has far more material than could be looked at in one week. Use questions that we don’t cover for revision.

The work is split evenly between problem set type questions and essays. This does not mean that the Final exam wouldn’t have an essay on a topic we covered through problems, and vice versa.

The essay titles given below are deliberately the more difficult of past paper questions. Each essay week there is one more straightforward conventional essay topic. You may take the option to do this conventional essay ONCE during the term.

Guide to answers:

* Problem type questions can be handwritten or typed.
* An essay plan should be around a single side of A4. It should briefly introduce the model or models used to answer the essay and highlight all the references you would include in the essay if you were writing it, explaining briefly why that reference was being included. Use bullet points to summarise any extensions or discussion of assumptions, and the main points you would return to in the conclusion.
* Essays should be between 1500 and 2000 words and should be typed. Try not to routinely exceed this, and if you do, please do not expect detailed written feedback on all your extra effort!

***Work should be submitted at 5pm on the day before the tutorial. Late work will not be marked unless it has been discussed with me in advance.***

**Questions**

*Week 1*

Answer questions 1, 4, 5 and 8 from the General Equilibrium problem set.

Write an essay plan for essay question 3 or 4.

Week 2

Answer questions 2, 4, 5 and 7 from the Welfare Economics and Optimisation problem set.

Write an essay plan for essay question 1 or 2.

Week 3

Should Wikipedia be taxed or subsidised?

OR

How should society go about deciding whether or not to build a high speed rail line?

OR

Explain the distinction between depletable and non-depletable externalities. Does this theoretical distinction have any practical relevance for environmental policy?

*Conventional option*

What instruments are available to the authorities to tackle the problems associated with negative externalities? In practice, which of these is appropriate when dealing with a local externality problem (such as pollution of rivers and lakes), and how is this altered by the problem being a global one, such as climate change?

Week 4

Answer questions 2, 3, 7, 6, 8 and 10 from the Game Theory problem sets.

In addition answer one of the two problems on the (week 5) IO and Competition Policy problem set.

Week 5

Is current merger policy too permissive?

OR

To what extent should competition law enforcement depend on the assessment of the

motives underlying firms’ behaviour?

OR

“The most serious problem facing competition authorities is usually one of market definition.” Do you agree? Illustrate your answer with reference to at least two cases.

*Conventional option*

How might a firm use quantities or prices to deter entry of other firms or induce exit of other firms in an industry? Evaluate, using examples, the remedies available to the authorities when such anti-competitive behaviour has been found.

*Note: This is an applied topic and should draw on real world examples. The expectation is that you research original examples and cases to illustrate your work. In the essays, you must not use any of the examples or cases given in the lecture notes and course reading! However, there will be a £20 book voucher prize for the best piece of original research given this week.*

Week 6

Would you expect people to become more, or less, risk-averse when they get wealthier?

OR

“Someone who plays the lottery and has motor insurance but not house insurance cannot be an Expected Utility maximiser.” Discuss.OR

Consider a lottery with two possible outcomes. In state-contingent income space sketch the combinations of y1 and y2 that give the same expected utility as the lottery to individual J and those that give the same expected utility as the lottery to individual K.

Sam prefers lottery A to lottery B, whereas Janet prefers lottery B to lottery A. Are these preferences consistent with both being expected utility maximisers? If so, can you determine whether or not either of the lotteries A and B stochastically dominates the other. Does your answer depend on Sam’s and Janet’s attitudes to risk?

*Conventional option*

When does expected utility theory provide a good explanation of behaviour in the presence of risk?

Week 7

“Educational degrees and product warranties can perform similar functions.” Discuss.

OR

Mozart moved from Salzburg to Vienna in 1781, hoping for a position at the Habsburg court. Instead of applying for a position, he waited for the emperor to call him, because “if one makes any move oneself, one receives less pay.” Discuss this situation of asymmetric information, with particular reference to the notions of signalling and/or screening equilibria.

OR

“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?

*Conventional option*

Explain how adverse selection may affect outcomes in an insurance market. What sort

of equilibrium could occur and does an equilibrium always exist?

Week 8

Answer problem questions 1, 2 and 4.

Write an essay plan for essay question 1, 3 or 5