

Applied Microeconomics: Contracts & Regulations, Education & Health

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Lent Term 2019

Aims and Objectives

The aim of this course is first, to provide the economics to understand the role of contracts. This includes theoretical models as well as the empirical evidence on how contracts have been used in regulation and in finance. Students should understand the main trade-offs that are involved in the provision of incentives, the role of market structure versus incentives in determining outcomes, and different ideas of efficiency.

The second aim of the course is to use this theory to provide the economic tools to analyse economic policy in health care and in education, and more generally to understand the role of contracts. At the end of the course, students should understand what the main issues are in the provision of benefits in kind, such as education and health, and understand how to model the efficiency, equity and risk sharing aspects of various sorts of government policy.

Outline

Part 1: Contracts

Topic 1: Optimal Contracts

- Milgrom and Roberts *Economics, organisation and management* Chs 6,7 **
- Prendergast, C. (1999). “The Provision of Incentives in Firms” *Journal of Economic Literature*, 37, 7-63 **
- Edmans, A. and Gabaix, X. (2016) “Executive compensation: a modern primer” *Journal of Economic Literature* **
- Laffont, J.-J. and Martimort, D. *The theory of incentives* esp ch 4.
- Frydman, C. and Jenter (2010) “CEO Compensation” NBER Working Paper 16585
- Bebchuk and Fried (2004) “Pay without performance”

Topic 2: Banking reform, bonus pay and bailouts

- Besley and Ghatak (2013) “Bailouts and the optimal taxation of bonus pay” *American Economic Review*, 103(3): 163-167
- Gregg, P., Jewell, S. and I. Tonks (2012) “Executive pay and performance: did bankers’ bonuses cause the crisis?” *International Review of Finance* 12:1 89-122
- Turner Review “A regulatory response to the global banking crisis”
- Vickers (2012) “Some economics of banking reform” Oxford University, Department of Economics Discussion Paper, 632, Available at:
<http://www.economics.ox.ac.uk/materials/papers/12467/paper632.pdf>

Topic 3: Regulation of industry

- Joskow, P.L. (2014) “Incentive Regulation in Theory and Practice: Electricity Distribution and Transmission Networks”
<http://www.nber.org/chapters/c12566>
- Mayer, C. and Vickers, J. (1996) “Profit-Sharing Regulation: An Economic Appraisal” *Fiscal Studies* vol. 17, no. 1, pp. 1-18
- Newbery, D. (2000) “Privatisation, Restructuring and Regulation of Network Utilities” Chapter 6

Part 2: Health Care

Lecture 6:

- Barr (2012) *Economics of the Welfare State*. Oxford University Press. 5th Edition. Chapters 4, 10
- Morris S., N. Devlin, and D. Parking. *Economic Analysis in Health Care*. Ch 1,6
- Journal of Economic Literature (2014) Stabile and Thomson “The changing role of government in financing health care: an international perspective” 52(2): 480-518

Extras

- Gaynor M, Moreno-Serra R, Propper C, (2012) Can competition improve outcomes in UK health care? Lessons from the past two decades, *Journal of Health Services Research and Policy*, Vol:17, Pages:49-54
- Martin Gaynor, Carol Propper, and Stephan Seiler (2016) “Free to Choose? Reform, Choice, and Consideration Sets in the English National Health Service” *American Economic Review* 106(11): 3521-3557

- C Propper, S Burgess, D Gossage (2008) “Competition and quality: evidence from the NHS internal market 1991–1996” *Economic Journal*, 118, pp. 138–170
- Manning, W., J. Newhouse, D Naihua, E. Keeler, A. Leibowitz (1987). Health insurance and the demand for medical care: evidence from a randomized experiment. *American Economic Review*. *American Journal of Managed Care*.
- Ellis, R. and G. McGuire (1986). Provider behavior under prospective reimbursement. *Journal of Health Economics*.
- Chalkley, M and Malcomson, J M “Government Purchasing of Health Services” in: *Handbook of Health Economics* (ed. A J Culyer and J P Newhouse), Elsevier Science, chapter 15, vol. 1A, pp 847-890
- Chernew, M. and J. Newhouse (2008). What does the RAND Health insurance experiment tell us about the impact of cost sharing on health outcomes?

Part 3: Education

- Barr (2012) *Economics of the Welfare State*. Oxford University Press. 5th Edition. Chapters 11,12
- Hartog, J. and H.M. van den Brink. Human Capital. Cambridge University Press. Chapters 1,2
- Spence, M. (1973). Job Market Signaling. *Quarterly Journal of Economics*.
- Weiss, A. (1995). Human Capital vs. Signalling Explanations of Wages. *Journal of Economic Perspectives*.
- Checchi, D (2006) *The Economics of Education: Human Capital, Family Background and Inequality* CUP

Extras

- Haroon Chowdry, Lorraine Dearden, Alissa Goodman and Wenchao (Michelle) Jin, (2012), The distributional impact of the 2012-13 higher education funding reforms in England, *Fiscal Studies*, Vol. 33, No. 2, pp. 211-235, Blackwell Publishing
- Lavy, V. (2002) “Evaluating the Effect of Teachers’ Performance Incentives on Pupils’ Achievements” *Journal of Political Economy*
- Hoxby, C. (1996) “Are efficiency and equity in school finance substitutes or complements?” *Journal of Economic Perspectives* 10(4): 51-72
- Acemoglu, D., S. Johnson, J. Robinson, and P. Yared (2005). From Education to Democracy? *American Economic Review, papers and proceedings*.

- Lochner, L. Non-production benefits of education: crime, health, and good citizenship. NBER working paper series, no. 16722.
- Palacios Lleras, M. 2004. *Investing in Human Capital: A capital markets approach to student financing*. Cambridge University Press.

Logistics

Supervisions

There will be 2 supervision exercises associated with the course. These will be posted on the course website (moodle).

Office Hour

Friday, 11:00 - 12:30, Room 87, Economics Faculty.

Moodle

How to enrol to the Moodle site for the course:

1. Go to www.vle.cam.ac.uk
2. Logon to Moodle using your Raven account
3. Go to Site home (a clickable link in the “Navigation” block of the interface)
4. Select category “Economics, Faculty of”
5. Select “Economics Tripos - Part IIB”
6. Select “Paper 1, Microeconomic Principles and Problems”