

## **COURSE CONTENT**

<b>Course Coordinator</b>	Christos Sakellariou
<b>Course Code</b>	HE4011
<b>Course Title</b>	Current Topics in Economics
<b>Pre-requisites</b>	HE2001 Intermediate Microeconomics and HE2002 Intermediate Macroeconomics
<b>No of AUs</b>	4
<b>Contact Hours</b>	39 hours (3 hours seminar per week)

### **Course Aims**

This course is targeted to students near graduation and about to enter the labour market. You will learn to deal with the consequences of relaxing the assumptions of certainty and symmetric information between economic agents in market transactions. Considering the presence of risk when making decisions as well as information asymmetry between agents brings us closer to the real world. When information asymmetry is present, market inefficiencies result. Hence, there is a role for policy makers in designing policies to reduce such inefficiencies.

### **Intended Learning Outcomes (ILO)**

By the end of this course, you (as a student) would be able to:

1. Recognize the nature of risk, attitude towards risk by economic agents, and the value of information.
2. Distinguish between various manifestations of information asymmetry.
3. Appraise how the presence of asymmetric information changes incentives of economic agents.
4. Identify what policy intervention is suitable for various manifestations of asymmetric information.

### **Course Content**

The first part of the course (weeks 1 and 2) explores how decisions are made under uncertainty and risk. Subsequently, we'll start building an understanding of the nature and consequences from the presence of asymmetric information in market transactions. We'll distinguish between "adverse selection" and "moral hazard" situations using real world examples, especially from the insurance industry. Our discussion will highlight how policy interventions such as the "lemons" laws, compulsory insurance, warranties, etc., are designed to limit the harmful consequences of asymmetric information.

### **Assessment (more details will be announced in class)**

Continuous Assessment:	50%
Final Examination:	50%
	-----
<b>Total</b>	<b>100%</b>
	-----

## Reading and References

Detailed lecture slides are provided.

The course content is based on research papers which form the foundation of the topics covered, as well as some more recent papers.

A list of research papers from the relevant literature, on which team project can be based on, is also provided.

### List of paper available for team project selection:

#### On origin of risk-aversion/ Anomalies of Expected Utility Theory/ Understanding Bayes Rule:

- (1) - "Monkey Business Sense." *The Economist*, June 25<sup>th</sup>- July 1<sup>st</sup>, 2005.
  - Hintze et al. 2013. "Risk aversion and Evolutionary Adaptation."
  - Zhang et al. 2014. "The origin of risk aversion."
- (2) - Jannakoplos and Bernasek 1998. "Are women more risk averse?"
  - Hibbert et al. 2008. "Are women more risk averse than men?"
  - Eckel and Grossman 2002. "Sex differences and statistical stereotyping in attitudes toward financial risk."
- (3) - Rabin and Thaler 2001. "Anomalies: Risk aversion."
  - Rabin 1999. "Risk Aversion and Expected-Utility Theory: A Calibration Theorem."
  - Palacios-Huerta et al. 2004. "Rejecting Small Gambles Under Expected Utility."
- (4) Holt and Anderson 1996. "Classroom Games: Understanding Bayes Rule."

#### On Adverse Selection

- (1) Akerlof (1970). "The market for "Lemons": Quality uncertainty and the market mechanism." [main ideas discussed in class]
- (2) - Lehn 1984. "Information asymmetries in Baseball's agent market."
  - Emons and Sheldon 2002. "The market for used cars: a new test of the lemons model."
  - Downing and Jaffe 2008. "Is the market for mortgage-backed securities a market for lemons?"
- (3) Holt and Sherman 1999. "Classroom Games: A Market for Lemons."
- (4) - Spence 1973. "Job market signaling." [main ideas discussed in class]
  - Arcidiacono et al. 2010. "Beyond signaling and human capital: Education and the revelation of ability."
- (5) Rothchild and Stiglitz 1976. "Equilibrium in competitive insurance markets: An essay on the Economics of imperfect information."

#### On Agency Theory and Moral Hazard

- (1) Stiglitz on the Financial Crisis: The financial crisis of 2007/8 and its macroeconomic consequences.
- (2) Mishkin 1999. "Lessons from the Asian Crisis."
- (3) Ortmann and Colander 1997. "Teaching tools: A simple Principal-Agent experiment for the classroom."

#### On Asymmetric Information and the Labour Market

- (1) Yellen 1984. "Efficiency Wage models of unemployment."
- (2) Shapiro and Stiglitz 1984. "Equilibrium unemployment as a worker's discipline device."
- (3) Akerlof 1982. "Labor contracts as partial gift exchange."
- (4) Raff and Summers 1987. "Did Henry Ford Pay Efficiency Wages?"

- (5) Salop and Salop 1976. "Self-Selection and Turnover in the Labor Market."
- (6) Ransom 1993. "Seniority and monopsony in the academic labor market."
- (7) Malcomson 1984. "Work incentives, Hierarchy and internal labor markets."
- (8) Lazear 1979. "Why is there mandatory retirement?"

**Course Instructors**

Instructor	Office Location	Email
Christos Sakellariou	SHHK 04-64	acsake@ntu.edu.sg

**Planned Weekly Schedule**

Week	Topic	Course LO	Readings/ Activities
1	Decision making under Uncertainty.	1	Lecture slides
2	Decision making under Uncertainty (continued) Tutorial 1 - discussion	1	Lecture slides
3	Tutorial 2 – discussion Adverse Selection	2, 3 , 4	Lecture slides
4	Tutorial 3 – discussion Moral Hazard.	2, 3 , 4	Lecture slides
5	Efficiency wages and related issues.	2, 3 , 4	Lecture slides
6	Information issues in the labor market.	2, 3 , 4	Lecture slides
7	Wrapping up lectures 1 <sup>st</sup> Team presentation	2, 3 , 4	Lecture slides
8	Team Presentations		See list
9	Team Presentations		See list
10	Team Presentations		See list
11	Team Presentations		See list
12	Team Presentations		See list