COURSE CONTENT

Course Coordinator  Christos Sakellariou
Course Code         HE4011
Course Title        Current Topics in Economics
Pre-requisites      HE2001 Intermediate Microeconomics and
                    HE2002 Intermediate Macroeconomics
No of AUs            4
Contact Hours        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)
CA1        : 25%
CA2        : 20%
CA3        : 5%
Final Examination: 50%

Total       100%
**Reading and References**

Detailed lecture slides are provided. The course content is based on research papers which from 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:*


   - Hibbert et al. 2008. “Are women more risk averse than men?”


*On Adverse Selection*


   - Downing and Jaffe 2008. “Is the market for mortgage-backed securities a market for lemons?”


*On Agency Theory and Moral Hazard*


*On Asymmetric Information and the Labour Market*


(6) Ransom 1993. “Seniority and monopsony in the academic labor market.”
(8) Lazear 1979. “Why is there mandatory retirement?”

Course Instructors

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<thead>
<tr>
<th>Instructor</th>
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Planned Weekly Schedule

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<td>Decision making under Uncertainty (continued) Tutorial 1 - discussion</td>
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<td>Tutorial 2 – discussion Adverse Selection</td>
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<td>Efficiency wages and related issues.</td>
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<td>6</td>
<td>Information issues in the labor market.</td>
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<td>Wrapping up lectures 1st Team presentation</td>
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