

BS3391 – Further Topics in Microeconomics

Lecture 11 – Revision 1

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Outline

- Quick reminder about the exam structure and format
- Revision of two topics (questions 1 and 2 of the mock exam paper)
 - Welfare
 - Signalling

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Exam conditions

- This module is 70% assessed through a 7 hours **OPEN BOOK** take away exam
- **Start:** 07 January 2026 9:00am
- **End:** 07 January 2026 4:00pm
- Exam paper will be made available on Blackboard
- Answers have to be submitted in **ONE** word document on TurnitIn.

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Exam conditions

- You have to answer 2 out of 4 questions
- Only answer 2!
- You cannot exceed 1,000 words for each question answered.
- **YOU DO NOT HAVE +10%!!!!**
- Any references, labels of figures and equations are not part of the word limit
- Direct quotes are part of the word count!

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Diagrams

- All diagrams **HAVE TO BE DRAWN BY HAND (pen and paper or on your tablet)**.
- Use pens (you may use colourful ones!), paper and a ruler
- Afterwards, you scan them or take a picture, and then copy them into your word document.
- You **MUST NOT COPY AND PASTE** the diagrams from my lecture slides or from other online sources. I will be strict with that.

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Maths

- You have two options:
 1. Write them by hand, and copy them into your word file.
 2. Use Word's maths editor. This will make your equations look very professional

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TOPIC 1 – Evaluating Policies

- Topic was covered in lectures 4 and 5
- Pareto efficiency and its limitations
- Utility Possibility Frontier
- Kaldor-Hicks
- Bergson (SWF)
- Voting (Arrow's Impossibility Theorem)

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Mock paper question:

“To rebalance the UK economy, a report by the Inequality Commission called for the creation of a £250bn renewal fund to support UK’s poorest regions over the next 15 years. Using alternative economic welfare measures, explain under what circumstances this policy could be welfare improving and, therefore, should be undertaken by the UK government. Clearly highlight the assumptions and limitations of the measures you have selected.”

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Potential answer

- How can you introduce this question? Is the question of relevance in the real world?
- There are many different measures, you won't be able to discuss them all in detail
- Starting point will be Pareto efficiency
- Better to discuss a few in depth than just everything very superficially
- You have to apply them to the question! Do not be too generic!
- Conclusion: Limitations? Any other measures that are used nowadays? What's next?

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TOPIC 2 - Signalling

- Topic was covered in lectures 5 & 6
- What is a signal and why do we need them?
- The assumptions of Spence's signalling model
- Separating, Pooling and Multiple Equilibrium
 - Numerical examples and graphs
- What are the variables that could change in the model?
- Is signalling socially efficient?
- Extensions of the model

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Mock paper question

“A university degree is an important signal in the job market for employers. Assume that the government significantly increases the current student fees for University courses. Use Spence’s model of labour market signalling to critically evaluate the impact of this policy on high and low ability workers. Support your arguments with a numerical example and clearly highlight the assumptions you have made in your analysis.”

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Potential answer

- How can you introduce this question? Is the question of relevance in the real world? Don’t just start with a definition!!!
- Use suitable numerical examples
- You will have to explain the different equilibria
- Start with a “baseline” scenario, then explain the impact of a change on the baseline
- You have to summarise your results! Don’t just stop after explaining different equilibria

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