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Intensive Course:
The Economics of Contracts and Information

Time: 09 - 14 April 2007

Location: AWO - Academy, Marktbreit

Objective: The aim of this course is to introduce students the economics of contracts and asymmetric information. By the end of the course, you should have developed a broad analytical knowledge about what constraints informational asymmetries place on the efficiency and profitability of economic transactions in both market and non-market environments. You should also have learned to explain and determine optimal institutional responses (specific mechanisms/contracts) that can be used to address these problems.

Outline:

- I. Introduction: Asymmetric Information and the Failure of the Coase Theorem
- II. Adverse Selection in Markets
 - 1. Akerlof's Model
 - 2. Signaling
 - 3. Screening
- II. Monopolistic Screening
 - 1. The Model with Two Types
 - 2. The Model with Continuous Types
- IV. Mechanism Design
 - 1. Basic Concepts
 - 2. Dominant Strategy Implementation
 - 3. Bayesian Nash Implementation and Auctions
 - 4. Applying the Revelation Principle: The Revenue Equivalence Theorem
- V. Moral Hazard
 - 1. The Standard Moral Hazard Model
 - 2. Extensions

Reading List:

Students should have access to

- Mas-Colell, A. Whinston, M.D. and Green, J.R. (1995). *Microeconomic Theory*, Oxford University Press.

Below is a list of other textbooks that may also prove useful. The first two are textbooks on microeconomic theory, both of which contain chapters on choice under uncertainty, game theory, asymmetric information and basic contract theory (Kreps being the more intuitive with strong emphasis on game theory). Gibbons is an excellent book for those who want to refresh their knowledge of game theory and are mostly interested in applications. The last two books specifically deal with contract theory and cover much more material than this course, especially Bolton/Dewatripont. They are helpful for understanding some of the topics discussed in class, as a reference, and for studying further applications.

- Jehle G.A. and P.J. Reny (2001). *Advanced Microeconomics Theory*, Addison Wesley.
- Kreps, D.M. (1990). *A Course in Microeconomic Theory*, Princeton University Press.
- Gibbons, R. (1992). *Game Theory for Applied Economists*, Princeton University Press.
- Bolton, P. and M. Dewatripont (2004). *Contract Theory*, The MIT Press.
- Salanie, B. (2005). *The Economics of Contracts. A Primer*, 2nd ed. The MIT Press

Organization. There will be three lectures in the morning. After lunch, students will have time to work on assigned problem sets and readings, followed by a review session in the late afternoon/early evening where we discuss the solutions of the problem set and the readings.