

IWH-DPE/CGDE

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22 August to 25 August 2017

FRONTIERS IN MICROECONOMICS

The Economics of Contracts and Information

Objective

The course provides a short introduction to the theory of contracts and asymmetric information. By the end of the course, students 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. They should also have learned to explain and determine optimal institutional responses (specific mechanisms/contracts) that can be used to address these problems.

Course outline

- I. Asymmetric Information and the Failure of the Coase Theorem
- II. Asymmetric Information and Market Failure
 1. Adverse Selection
 2. Monopolistic Screening
 3. Signaling
- III. Moral Hazard
 1. Principal Agent Model with Hidden Action
 2. Relational Contracts
- IV. Behavioural Contract Theory

Schedule of classes

22 August:	10:00–12:00 and 13:00–17:30
23 August:	9:00–12:00 and 13:00–17:30
24 August:	9:00–12:00 and 13:00–17:30
25 August:	9:00–12:00 and 13:00–15:00

Venue

Halle Institute for Economic Research (IWH) – Member of the Leibniz Association, Kleine Maerkerstrasse 8, 06108 Halle (Saale), Germany, conference room (ground floor)

Registration

Please contact Annett Hartung, Phone: +49 345 7753 751, e-mail: annett.hartung@iwh-halle.de, until July 15, 2017.

The course is designed for at most 25 participants.

In preparation for the course, students should read the following material:

– any chapter(s) on Decisions under Uncertainty/Attitudes towards Risk in either one of the following textbooks:

- Bolton, P. and M. Dewatripont (2004). *Contract Theory*, The MIT Press.
- 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.
- Mas-Colell, A. Whinston, M.D. and Green, J.R. (1995). *Microeconomic Theory*, Oxford University Press.

– all of the following chapters from Gibbons, R. (1992)], *Game Theory for Applied Economists*, Princeton University Press

Theory: Subgame Perfection

Theory: Two-Stage Repeated Games

Theory: Infinitely Repeated Games

Theory: Static Bayesian Games and Bayesian Nash Equilibrium

Introduction to Perfect Bayesian Equilibrium

A detailed reading list and lecture notes will be distributed on the first day of class.