

Professor Anke Kessler, PhD

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July 2, 2018 – July 5, 2018

ADVANCED MICROECONOMICS

Objectives

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

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. Behavioral Contract Theory (time permitting)

Schedule of classes

- 2 July:** 10:00–12:00 and 13:00–17:30
3 July: 09:00–12:00 and 13:00–17:30
4 July: 09:00–12:00 and 13:00–17:30
5 July: 09:00–12:00 and 13:00–15:00

Venue

ifo Institute, Dresden Branch, Einsteinstraße 3, 01069 Dresden

Registration: Please contact Yvonne Bludau, E-mail: yvonne.bludau@tu-dresden.de, until **June 1, 2018**.

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

1. 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.

2. 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 before the first day of class.