

Advanced Microeconomics: Information economics

Winter Term 2020/21

Instructor: Shuo Xia

Time and Location:

26th Jan 2020, 14:00 – 15:30 conference room, IWH

09th Feb 2020, 14:00 – 17:30 conference room, IWH

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Course Description:

The first part (90 min) of the course connects with professor Heiko Karle's game theory part and directly discuss the application of static games with incomplete information and then continues to the dynamic games with incomplete information.

The second part of the course we will cover basics of adverse selection and moral hazard in a principal-agent framework (180 min).

Required literature:

(MWG) Mas-Colell, A., Whinston, M. D., & Green, J. R. (1995). *Microeconomic theory*. New York: Oxford university press.

If you find the MWG is hard to follow you can also consult the following literature.

Other useful references:

(G) Gibbons, R. S. (1992). *Game Theory for Applied Economists*. Princeton University Press.

(BD) Bolton, P., & Dewatripont, M. (2005). *Contract Theory*. MIT press.

Contents:

1. Static games with incomplete information
 - a. MWG 8.E
 - b. G 3.1 – 3.2
2. Dynamic games with incomplete information
 - a. MWG 9.C, 9.D
 - b. G 4.
3. Adverse selection (hidden information)
 - a. MWG 13.
 - b. BD 2. – 3.

- c. Akerlof, G. A. (1970). The Market for "Lemons": Quality Uncertainty and the Market Mechanism. *The Quarterly Journal of Economics*, 84(3), 488-500.
4. Moral hazard (hidden action)
 - a. MWG 14.
 - b. BD 4.1 – 4.4
 - c. Hölmstrom, Bengt. "Moral Hazard and Observability." *The Bell Journal of Economics* 10.1 (1979): 74-91.

Other useful sources (If you are interested):

- Fudenberg, D., & Tirole, J. (1991). *Game theory*. MIT press.
- Laffont, J. J., & Martimort, D. (2009). *The theory of incentives: the principal-agent model*. Princeton university press.
- Holmstrom, Bengt, and Paul Milgrom. "Multitask principal-agent analyses: Incentive contracts, asset ownership, and job design." *JL Econ. & Org.* 7 (1991): 24.
- Lambert, Richard A. "Contracting theory and accounting." *Journal of accounting and economics* 32.1-3 (2001): 3-87. [sections 1-3]