

MICROECONOMICS III:  
Information Economics and Contract Theory  
Winter 2006: 5 weeks---20hrs  
Pascal Courty

This block is an introduction to information economics with applications to the economics of contracts. The course is based on material in form of handouts and original articles, and will refer to Mas-Colell, Whinston, Green (chapter 13-14-23) whenever possible although the following books could be used depending on the topic.

Mas-Colell, Whinston, Green (1995), Microeconomic Theory, Oxford University Press.

Bolton and Dewatripont (2004). Contract Theory, The MIT Press.

Salanie, B. (1997) The Economics of Contracts: A Primer, MIT Press.

**Practical Information**

Website: <http://www.iue.it/Personal/Courty/courses.html>

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Course Evaluation: Problem sets (30%) + 2 hour exam (open book) (70%)

**Course Topics**

1-Introduction to Information Economics

Salanie Chapter 1.

Bolton Dewatripont, Chapter 1.

Stiglitz, Joseph E. "The Contribution of the Economics of Information to Twentieth Century Economics". Quarterly Journal of Economics, Nov. 2000, pp. 1441-1478.

2-Adverse Selection

Salanie, Chapter 2.

Bolton-Dewatripont, Chapter 2-7.

Mas-Colell-Whinston-Green, Chapter13.

Akerlof G (1970) "The Market for Lemon," QJE 89: 488 – 500.

Rothchild and Stiglitz, "Equilibrium in Competitive Insurance Markets: An Essay on the Economics of Imperfect information," QJE, (November 1976):629-650.

Maskin, E., and J. Riley (1984), "Monopoly with Incomplete Information," Rand Journal of Economics 15(2): 171-196.

Mussa, M., and S. Rosen (1978) "Monopoly and Product Quality," Journal of Economic Theory 18: 301-317.

3- Signalling

Salanie, Chapter 4.

Bolton-Dewatripont, Chapter 3.

Mas-Colell-Whinston-Green, Chapter 13.

Cho, I.K and D. Kreps. (1987). "Signaling Games and Stable Equilibria." Quarterly Journal of Economics 102: 179-221.

Spence, A. M.(1973) "Job Market Signaling" QJE 87: 355 - 74 .

#### 4-Moral Hazard

Salanie, Chapter 5.

Bolton-Dewatripont, Chapter 4.

Mas-Colell-Whinston-Green, Chapter 14.

Grossman, S and O. Hart. (1983). "An Analysis of the Principal-Agent Problem. Econometrica." 51:7-45.

Holmstrom B. (1979), "Moral Hazard and Observability," Bell Journal of Economics, 10: 74-91.

#### 5-Dynamics of Complete Contracts

Salanie, Chapter 6.

Bolton-Dewatripont, Chapter 8-10.

Laffont, J.J. and J. Tirole. (1993). A Theory of Incentives in Procurement and Regulation. Cambridge: MIT Press. Chapter 9-10.