

**Microeconomics Block III
Winter 2013**

Andrea Mattozzi

- **Classes:** Thu, Fri 8.45-10.45 VSP1.
- **TA:** Sarah Auster
- **TA Sessions:** Thu 11.00
- **Office Hours:** Friday from 10:45 to 12:45.
- **Required Texts:**
 1. Mas-Colell A., Whinston M.D., and Green J.R., 1995, *Microeconomic Theory*, Oxford;
 2. Reny P. and Jehle G., *Advanced Microeconomic Theory*, 2nd edition, Addison Wesley.Lecture Notes will be distributed.
- Recommended extra text: Salanie B., *The Economics of Contracts*, MIT.
- **Course Objectives:** This course introduces you to market failures such as asymmetric information, externalities, public goods, and agency problems. Topics include: models of asymmetric information in markets, including screening, signaling, and lemons; markets with externalities or public goods; optimal contracts, principal-agent models with hidden actions, and principal-agent models with hidden information; mechanism design and the revelation principle.
- **Course Requirements:** There will be the usual final exam. Problem sets need to be turned in, but won't be graded.

Subjects and readings

- Material for first week:
 1. Inefficient market equilibria when there are unobservable private characteristics that are relevant for the competitive prices. MWG-13B.
 2. Adverse selection and markets with signaling; MWG-13C, JR-8.1.
 3. Competitive screening; in labor markets MWG-13D and in insurance markets JR-8.1.
- Material for second week:
 1. Moral hazard and the principal agent problem in insurance and labor markets MWG-14B, JR-8.2.

2. Monopolistic screening; MWG-14C.
3. Principal-agent model with hidden information and hidden action; MWG-14D.

- Material for third week:

1. Left-overs from the theory of complete contracts.
2. Mechanism design and applications of revelation principle to monopoly price discrimination and first price auctions. Salanie Ch. 2,3

- Material for fourth week:

1. Social choice, implementation and mechanism design, taking public good provision and collective decision making as main topics.
2. Myerson and Satterthwhite. MWG-23.

- Last week:

1. Cheap Talk: the basic one sender model.
2. Extensions: extensive communication, delegation and contracts, multiple senders, multiple dimensions.