INFORMATION TRANSMISSION IN ECONOMICS

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COURSE INSTRUCTOR
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COURSE INFORMATION
Pre-requisites: First-year micro sequence or equivalent.
Lectures: 5 lectures of 2 hours each.

COURSE OVERVIEW
Information transmission is by no means a new subject in economics but it is a subject that continually finds new applications. The field explores how information can be shared between agents who have different objectives and the applications range from central banks and financial markets to media and politics. The course introduces models of information transmission and the basic dichotomy between non-verifiable information (cheap talk) and verifiable information models. A special emphasis is given to the canonical model of Crawford and Sobel and its extensions. Different applications are then analysed.

READING
The reading for each class is specified in the outline. I will focus on the “classic” papers but we will also discuss more recent applications. As a very well-written and sometimes even funny introduction you should read Farrel and Rabin (1996).

OUTLINE
Class 1. Introduction. Discussion of the difference between verifiable information and cheap talk. Examples from economics and 'real life'. Analysis of Milgrom and Roberts (1986) as an example of a verifiable information model.

Class 2. Cheap talk. Analysis of Crawford and Sobel (1982). Discussion of concepts, the model's importance and experimental evidence (Crawford 1998; Cai and Want 2006; Blume and Ortman 2007). We will also cover the 'modern' approach to finding cheap talk equilibria by fixed point methods (Gordon, 2010).

Class 3. Extensions to Crawford and Sobel. We look at equilibrium selection (Farrell 1992; Chen et al. 2008), and will look at extensions (for instance cheap talk with two audiences, costly information acquisition, delegation of decisions and naïve receivers).


REFERENCES

A more detailed reading list will be provided in the course, but the main references are the following.