Economics 211A: Contract Theory

M,W 9:00-10:20, BH 2249, Autumn 2009

http://www.econ.ucla.edu/sboard/teaching.html

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This is a course in contract theory. It will cover many of the tools and techniques used in models of moral hazard, screening and incomplete contracting. Applications will be drawn from industrial organisation, corporate finance, public finance, personnel economics, and many other areas. In addition to the usual topics, I also plan to spend some time on recent innovations in the theory of relational contracts and dynamic signalling.

For those enrolled, there will be three problem sets (15% each) and a final (55%). The problem sets will be due on 21st October, 9th November and 2nd December. I encourage you to discuss the substance of the problems, but the final version should be your own.

Wednesday November 11th is Veteran’s Day. There will be no class.

Books and Manuscripts


Laffont and Martimort (2002), *The Theory of Incentives*, PUP.


1. Useful Techniques

Topics: lattices, supermodularity, monotone comparative statics, comparing equilibria, envelope theorems, stochastic orders.

Topkis (1998), *Supermodularity and Complementarity*, PUP.


2. Moral Hazard: One Agent

Topics: two action model, continuous action model, optimal linear contracts, comparative performance evaluation, multitasking, private evaluations, debt contracts.

Bolton and Dewatripont, *Chapters 4 and 6.2*.


3. Moral Hazard: Many Agents

**Topics:** tournaments, partnerships, comparative performance evaluation.

Bolton and Dewatripont, *Chapter 8*.


4. Moral Hazard: Dynamics

**Topics:** repeated moral hazard, justifying simple contracts, renegotiation, career concerns.

Bolton and Dewatripont, *Chapter 10*.


5. Relational Contracts

**Topics:** Bilateral contracts, multilateral contracts, embedding relational contracts in markets.


6. Mechanism Design: One Agent

**Topics:** revelation principle, discrete type problems, continuous type problems, ironing, credit rationing, implicit labour contracts, regulation, insurance, labour contracts, contracts as barriers to entry, costly state verification.
Bolton and Dewatripont, *Chapter 2*.

Laffont and Martimort, *Chapters 2 and 3*.


7. Mechanism Design: Many Agents

**Topics:** optimal auctions, bilateral trading.

Mas–Collel, Whinston and Green, *Chapter 23*.

Bolton and Dewatripont, *Chapter 7*.


Milgrom (2004), *Putting Auction Theory to Work*, CUP.


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8. Mechanism Design: Dynamics

**Topics:** commitment solutions, no commitment, renegotiation, entry of new agents, durable goods monopoly, consumption smoothing.

Bolton and Dewatripont, *Chapter 9.*

Laffont and Martimort, *Chapter 8.*


9. Mixed Models

**Topics:** false moral hazard (optimal taxation), adverse selection and moral hazard.

Bolton and Dewatripont, *Chapter 6.3.*

Laffont and Martimort, *Chapter 7.*

