Economics 211A and 271A: Contract Theory

M,W 10:30-11:45, BH 9294, Autumn 2010

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

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Office Hours: By appointment.
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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 and personnel economics. In addition to static models of contracting, I will spend some time on recent innovations in the theory of dynamic contracting and relational contracts.

For those enrolled, there will be three problem sets (15% each) and a final (55%). The problem sets will be due on 20th October, 8th November and 1st December. I encourage you to discuss the substance of the problems, but the final version should be your own.

Books and Manuscripts


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


1. 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.*


2. Moral Hazard: Many Agents

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

Bolton and Dewatripont, *Chapter 8*.


3. Moral Hazard: Dynamics

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

Bolton and Dewatripont, Chapter 10.


4. Relational Contracts

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


5. 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*.


6. 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.


7. 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.


8. Mixed Models

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

Bolton and Dewatripont, *Chapter 6.3*.

Laffont and Martimort, *Chapter 7*.


9. Incomplete Contracts

**Topics**: holdup problem, ownership, message games, specific performance contracts, option contracts, strategic ambiguity, complexity, describability.
Bolton and Dewatripont, *Chapter 11 and 12*.


