Economics 211A and 271A: Contract Theory

M,W 10:30-11:45, BH 2249, Autumn 2011

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 19th October, 7th November and 30th November. I encourage you to discuss the substance of the problems, but the final version should be your own.

Books and Manuscripts

Bolton and Dewatripont (2005), Contract Theory, MIT Press.

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

Mas-Colell, Whinston and Green (1995), Microeconomic Theory, OUP.

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


Stole (1993), Lectures on Contracts and Organizations, Unpublished, University of Chicago.
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. Reputation

**Topics:** reputation, exit, Endogenous and exogenous types.


7. 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*.


8. Mechanism Design: Many Agents

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

Mas-Colell, Whinston and Green, *Chapter 23*. 
Bolton and Dewatripont, *Chapter 7.*


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


9. Mechanism Design: Dynamics with Commitment

**Topics:** changing types, entry of new agents, revenue management, consumption smoothing.

Bolton and Dewatripont, *Chapter 9.*

Laffont and Martimort, *Chapter 8.*


### 10. Mechanism Design: Dynamics without Commitment

**Topics:** durable goods monopoly, behavioural pricing, renegotiation.


### 11. Mixed Models

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

Bolton and Dewatripont, *Chapter 6.3*.

Laffont and Martimort, *Chapter 7*. 


### 12. Incomplete Contracts

**Topics:** holdup problem, ownership, message games, specific performance contracts, option contracts, strategic ambiguity, complexity, describability.

Bolton and Dewatripont, *Chapter 11 and 12*.


