Economics 211A and 271A: Contract Theory

M,W 10:20-11:35, BH 9294, Autumn 2014

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

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Office Hours: By appointment.
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This course studies trading relationships between small numbers of agents. It will cover many of the tools and techniques used in models of moral hazard, adverse selection and incomplete contracting. We start with static models of moral hazard and mechanism design, and develop their dynamic counterparts. We then consider environments where agents cannot use formal contracts, studying relational contracts and trading relationships with no contracts. While the aim is the develop a toolset, we motivate the analysis with a wide variety of applications drawn from Industrial Organization, Corporate Finance, Personnel Economics, and Public Economics. The class builds on 201B and 201C. I also recommend “211C: Game Theory and Economic Applications”

For those enrolled, there will be three problem sets (15% each) and a final (55%). The problem sets will be due on Weds 29th October, Wed 19th November and Wed 10th December (these dates may change). You can 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.


1. **Moral Hazard: One Agent**

   Bolton and Dewatripont, *Chapters 4 and 6.2*.


2. **Moral Hazard: Many Agents**

   Bolton and Dewatripont, *Chapter 8*.


3. **Moral Hazard: Dynamics**

Bolton and Dewatripont, *Chapter 10.*


4. **Reputation**


5. Relational Contracts


6. Mechanism Design: One Agent

Bolton and Dewatripont, *Chapter 2*.

Laffont and Martimort, *Chapters 2 and 3*. 


7. Mechanism Design: Many Agents

Mas-Colell, Whinston and Green, *Chapter 23*.

Bolton and Dewatripont, *Chapter 7*.


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


8. Mechanism Design: Without Transfers


9. Mechanism Design: Dynamics with Commitment

Bolton and Dewatripont, Chapter 9.

Laffont and Martimort, Chapter 8.


### 10. Mechanism Design: Dynamics without Commitment


### 11. Mechanism Design: Competition


12. Incomplete Contracts

Bolton and Dewatripont, Chapter 11 and 12.


13. Contracting with Externalities

Bolton and Dewatripont, Chapter 13.3.

