

Economics 8104-002

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Description

This part of the recitation section (Econ 8104-002) will provide an introduction to the basics of contract theory.

Due to severe time constraints, we will focus somewhat narrowly on the problem of mechanism design and adverse selection in static settings. This means that we won't cover such topics as moral hazard, signaling, and dynamics.

Besides the usual micro textbooks introduced so far, Bolton and Dewatripont's *Contract Theory* (MIT Press, 2005) is a useful general reference for the subject matter.

Tentative Outline

Overview of contract theory

The mechanism design problem and the revelation principle:

- Setup, statement, and discussion of the problem
- Simplification of the problem through the revelation principle

Applications:

- Screening
- Auction design

Additional issues to be aware of:

- Different modes of implementation
- Loss of ex-post efficiency

Relevant References

Bolton, P. and M. Dewatripont (2005): *Contract Theory*, MIT Press, Chapters 2 and 7.

Fudenberg, D. and J. Tirole (1991): *Game Theory*, MIT Press, Chapter 7.

Mas-Colell, A., M. Whinston, and J. Green (1995): *Microeconomic Theory*, Oxford University Press, Chapter 23.

Salanie, B. (1997): *The Economics of Contracts*, MIT Press, Chapters 2 and 3.