

## Theory of Incentives

Course title - Intitulé du cours	Theory of Incentives
Level / Semester - Niveau /semestre	M1 / S1
School - Composante	Ecole d'Economie de Toulouse
Teacher - Enseignant responsable	SAND WILFRIED
Other teacher(s) - Autre(s) enseignant(s)	Luis Martins ABREU
Other teacher(s) - Autre(s) enseignant(s)	
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Lecture Hours - Volume Horaire CM	15
TA Hours - Volume horaire TD	6
TP Hours - Volume horaire TP	
Course Language - Langue du cours	Anglais
TA and/or TP Language - Langue des TD et/ou TP	Anglais

### Teaching staff contacts - Coordonnées de l'équipe pédagogique :

Pr. Wilfried Sand-Zantman, [wsandz@tse-fr.eu](mailto:wsandz@tse-fr.eu)

Office Number: MF 409

Office hours: by appointment (see me an E-mail)

TA Luis Martins Abreu, [luiscarlos.mat@gmail.com](mailto:luiscarlos.mat@gmail.com)

### Course's Objectives - Objectifs du cours :

This course is an introduction to incentives theory. The students will understand the impact of asymmetric information on markets and trade. The emphasis will be put on contracting solutions both in the case of hidden information and in the case of hidden action. Some applications to Industrial Organization, Finance, and Labour Economics (among other things) will be proposed. At the end of the lecture, the students will know how to derive constrained optimal contracts but more importantly will understand the main trade-offs induced by asymmetric information, rent extraction vs efficiency in the case of hidden information and insurance vs incentives in the case of hidden action.

### Prerequisites - Pré requis :

There is no special prerequisite except some normal knowledge of microeconomics and basic mathematical training.

### Practical information about the sessions - Modalités pratiques de gestion du cours :

Students are supposed to attend all classes and to participate.

The use of laptops is allowed but phone is not.

**Grading system - Modalités d'évaluation :**

There is no midterm exam but of course a final exam.

Note that all sessions take place between mid-october and the beginning of december.

**Bibliography/references - Bibliographie/références :**

"The Theory of Incentives", J.J. Laffont and D. Martimort (first chapters).

"The Economic of Contract: A primer", B. Salanié.

"Microeconomic Theory", A. Mas Colell - M. Whinston - J. Green (chapters 13-14).

**Session planning - Planification des séances :**

The topics developed in the sessions are the following

1) Markets with Asymmetric Information

2) Principal-Agent Models with Hidden information

- The discrete case

- The continuous case

- Application(s)

3) Principal-Agent Models with Hidden action

- The discrete case

- The continuous case

- Application(s)