

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	Dias De Brito Gomes Renato - Smolin Alexey
Other teacher(s) – Autre(s) enseignant(s)	Li Yaxin
Other teacher(s) – Autre(s) enseignant(s)	Huang Dakang
Other teacher(s) – Autre(s) enseignant(s)	Munoz Sobrado Esteban
Other teacher(s) – Autre(s) enseignant(s)	
Other teacher(s) – Autre(s) enseignant(s)	
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 :

E-mail: renato.gomes@tse-fr.eu and alexey.v.smolin@gmail.com

Office Number: T671 (Renato) and T584 (Alex)

Office hours: by appointment (send E-mail)

Course 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 phones are 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

“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

In lectures 1 to 5 (taught by Renato Gomes) we will study markets with asymmetric information.

Specifically, we will cover the following three basic frameworks:

- Market for lemons (Akerlof)
- Competitive insurance markets (Rothschild and Stiglitz)
- Signaling (Spence)

In lectures 6 to 10 (taught by Alex Smolin) we will study Principal-Agent Models with Hidden information and Hidden action, in both their discrete and continuous formulations, to then consider some applications.