

Theory of Incentives

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| Course title – Intitulé du cours | Theory of Incentives |
| Level / Semester – Niveau /semestre | M1 / S1 |
| School – Composante | Ecole d'Economie de Toulouse |
| Teacher – Enseignant responsable | Sara Shahanaghi – David Martimort |
| Other teacher(s) – Autre(s) enseignant(s) | BISCEGLIA MICHELE |
| Other teacher(s) – Autre(s) enseignant(s) | GONZALEZ MORIN JAVIER |
| Other teacher(s) – Autre(s) enseignant(s) | |
| 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 | 12 |
| 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: ss5147@columbia.edu and david.martimort@ut-capitole.fr

Office Number: TBA (Sara) and T582 (David)

Office hours: by appointment (send E-mail)

Course Objectives – Objectifs du cours :

This course is an introduction to The Theory of Incentives. 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 Labor Economics (among other things) will be proposed. At the end of this class, 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 Sara Shahanaghi) 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 David Martimort) we will study Principal-Agent Models with Hidden information and Hidden action, in both their discrete and continuous formulations. Various applications will illustrate our findings.