Microeconomics III
2011/2012
Professor: Marco Celentani

Compulsory
ECTS credits: 5
Course: 1º
Semester: 2º

STUDENTS ARE EXPECTED TO HAVE COMPLETED: Micro Theory I and II.

COMPETENCES AND SKILLS THAT WILL BE ACQUIRED AND LEARNING RESULTS: The purpose of the course is to provide an introduction to the main concepts and techniques of modern information economics. Thus we will study contract design in a variety of situations. In particular, we will inspect optimal contract design under hidden actions (i.e., moral hazard) and under asymmetric information (i.e., private values and common) with either one or multiple agents. The main references for the class are (i) Mas-Colell, Whinston and Green, *Microeconomic Theory*, Oxford, University Press; (ii) Fudenberg and Tirole, *Game Theory*, The MIT Press; (iii) Salanie, *The Economics of Contracts*, The MIT Press; (iv) Laffont and Martimort, *The Theory of Incentives*, Princeton University Press.

DESCRIPTION OF CONTENTS: PROGRAMME:
Tentative outline
1. Trading and Contracting with Common Values
   (a) Adverse Selection in Markets: Akerlofs Model.
   (b) Signaling
2. Optimal Contracting with Hidden Actions
   (a) The Basic 2x2 Model.
   (b) The Trade-off between insurance and incentives when actions are non-observable.
   (c) Multiple Outcome Model.
   (d) The General Model.
3. Optimal Contracting with Private Information: One Agent
   (a) The Basic 2 types Model.
   (b) The Rent Extraction-Efficiency Trade-off.
   (c) The General Model.
4. Contracting with Private Values: Multiple Agents
   (a) Optimal Mechanism design with Several Agents: Auctions with private values
   (b) Efficient Mechanism design with Several Agents: VCG mechanisms with private values and public goods
LEARNING ACTIVITIES AND METHODOLOGY: To be announced.
ASSESSMENT SYSTEM: Homework, final exam.