

# INSR 932 Contract Theory and Applications

## PhD Course

Fall 2011

Professor Anastasia V. Kartasheva

The course provides an advanced introduction to the theory of contracts and its applications. It contains a mixture of foundational theories and applications to fields such as labor, regulation, corporate finance and industrial organization.

The requirements of the course are class participation and two referee reports.

### References

- (BD) *Contract Theory* by Patrick Bolton and Mathias Dewatripont, MIT Press, 2004.  
(S) *The Economics of Contracts*, Bernard Salanié, MIT Press, 1997.  
(LM) *The Theory of Incentives*, Jean-Jacques Laffont and David Martimort, Princeton University Press, 2002  
(FT) *Game Theory*, Drew Fudenberg and Jean Tirole, MIT Press, 1998.  
(MCWG) *Microeconomic Theory*, Andreu Mas-Colell, Michael D. Whinston and Jerry R. Green, Oxford University Press, 1995.

### Tentative Course Agenda

Class	Day	Date	Topic
1	Thursday	09/08/2011	Introduction. Adverse selection
2	Tuesday	09/13/2011	Adverse selection
3	Thursday	09/15/2011	Adverse selection
4	Tuesday	09/20/2011	Competition in contracts
5	Thursday	09/22/2011	Moral hazard
6	Tuesday	09/27/2011	Moral hazard
7	Thursday	09/29/2011	Signaling models
8	Tuesday	10/04/2011	Incomplete contracts
9	Thursday	10/06/2011	Baker, George. 1992. "Incentive Contracts and Performance Measurement." <i>Journal of Political Economy</i> 100:598-614.
10	Tuesday	10/11/2011	Fall Break. No class
11	Thursday	10/13/2011	W Prendergast, C. 2002. "The Tenuous Trade-off between Risk and

			Incentives," <a href="#">Journal of Political Economy</a> 110: 1071-1102.
12	Tuesday	10/18/2011	W Levin, Jonathan. 2003. "Relational Incentive Contracts." <a href="#">American Economic Review</a> 93: 835-57
13	Thursday	10/20/2011	Tadelis, Steven. 1999. "What's in a Name? Reputation as a Tradeable Asset." <a href="#">American Economic Review</a> 89: 548-63.
14	Tuesday	10/25/2011	Tirole, Jean. 1996. "A Theory of Collective Reputations (with applications to the persistence of corruption and to firm quality)." <a href="#">Review of Economic Studies</a> 63:1-22.
15	Thursday	10/27/2011	W Hendel, I. and A. Lizzeri. 2003. "The Role of Commitment in Dynamic Contracting: Evidence from Life Insurance." <a href="#">Quarterly Journal of Economics</a> 118: 299-328.
16	Tuesday	11/01/2011	H. Fang, E. Kung. Does life insurance settlement affect the primary life insurance market? <a href="#">NBER working paper</a> .
17	Thursday	11/03/2011	Referee Report 1
18	Tuesday	11/08/2011	Referee Report 1,2
19	Thursday	11/10/2011	Referee report 2
20	Tuesday	11/15/2011	L. Rayo and I.Segal, 2010. "Optimal Information Disclosure", <a href="#">Journal of Political Economy</a> , 118: 949-987
21	Thursday	11/17/2011	J. Johnson and David Myatt, 2006, On the simple Economics of Advertising, Marketing and Product Design, <a href="#">American Economic Review</a> , 96(3): 756-784.
22	Tuesday	11/22/2011	D. Acemoglu, G. Egorov and K. Sonin, 2010 "Political Selection and Persistence of Bad Governments", <a href="#">Quarterly Journal of Economics</a> , 125(4): 1511-1575.
23	Thursday	11/24/2011	Thanksgiving. No class.
24	Tuesday	11/29/2011	G. Manso, Motivating Innovation, <i>Journal of Finance</i> , forthcoming. available at <a href="http://www.mit.edu/~manso/mi.pdf">http://www.mit.edu/~manso/mi.pdf</a>
25	Thursday	12/01/2011	R. Inderst, M. Ottoviani, 2009, "Misslelling through Agents", <i>American Economic Review</i> , 99(3), 883-908, <a href="http://www.aeaweb.org/articles.php?doi=10.1257/aer.99.3.883">http://www.aeaweb.org/articles.php?doi=10.1257/aer.99.3.883</a>
26	Tuesday	12/06/2011	P. Kumar, 1988, Shareholder-Manager Conflict and the Information Content of Dividends, <i>Review of Financial Studies</i> , 1(2), 111-136.
27	Thursday	12/09/2011	C. Hellwig and L. Veldkamp, 2009, Knowing what others know: Coordination Motives in Information Acquisition, <i>Review of Economic Studies</i> , 76: 223-251