

Information and Incentives

ECON 553, Fall 2009

Classroom: Room 3584 (lift 27)

Class Date: Friday

Class Time: 9:00-12:50

Office Hour: Any time

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1. Introduction

This course covers theories and applications of the latest developments in information economics. In particular, it presents theories on asymmetric information and complete contracts, and discusses incomplete contracts, control and income rights in organizations, and applications to corporate finance and various joint ventures. Students are required to understand various concepts intuitively and to be able to deal with simple applications. The main topics are: theory of asymmetric information, theory of revenue-sharing contracts, introduction to incomplete contracts, the allocation of ownership, control rights and income rights in the organization of the firm, and various applications. The focus is on applications of the incomplete-contract approach.

2. Topics

Chapter 1. Information Theory

Chapter 2. Foundation of Complete Contracts

Chapter 3. Foundation of Incomplete Contract

Chapter 4. Corporate Finance

Chapter 5. Corporate Governance

Chapter 6. Public Governance

Chapter 1 presents the theory on asymmetric information. Chapter 2 covers standard revenue-sharing contracts in the literature. It includes the standard agency model and some simple contracts. Chapter 3 covers the foundation and ideas on incomplete contracts. Starting from Chapter 4, we cover various applications of the theories.

The first two chapters are from my book: Wang (2006), *Microeconomic Theory*, in library, HB172 W354. Other chapters are mainly from papers. For math, see my book: Wang, S. (2008), *Math in Economics*, in library, HB135 W356. These two books are available from our university bookstore, costing about \$25 and \$35, respectively.

3. Arrangement

- The website: www.bm.ust.hk/~sswang/553/. The username is 5533.
- Some articles and supporting materials are available at the course website.
- The midterm exam is on Oct 16, Friday, 10–12, in our classroom. No final exam; instead, there is a reading assignment as a homework. The midterm and the assignment is both worth 50% of the final grade.