

Information Economics

ECON5330, Spring 2017

Classroom: Room G007, LSK
Class Date: Monday and Wednesday
Class Time: 9am – 10:20
Duration: Feb 1 – May 9

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1. Description

Course Objectives

This course covers theories and applications of information and organizational approaches. Specifically, it covers the three main topics in information economics: complete contracts, incomplete contracts, and organization theory. Students are required to understand various concepts intuitively and to be able to deal with simple applications.

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Intended Learning Outcomes

- Present standard concepts in information economics.
- Present several classical papers on information economics.
- Present the standard theory and approaches in information economics.
- Present the complete and incomplete contracts.

Teaching Approach

This course focuses on standard theories in information economics. In class, I will display slides, which contain the crucial information (results and definition). I will also derive the models and proofs step by step. If necessary, I will also draw relevant graphs step by step.

2. Outline

The big picture: GE -> IO -> mechanism design -> contract -> organization

Topic 1: Game Theory: Cooperative Games (Chapter 9)

Topic 2: Standard Agency Theory (Chapter 12)

Topic 3: Complete and Incomplete Contracts (Paper)

Topic 4: Organization Theory and Its Applications (Papers)

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3. Resources

Books

Laffont, J.J. (1995). *The Economics of Uncertainty and Information*, MIT, at our course website.

Jehle, G.A., Reny, P.J. (2011). *Advanced Microeconomic Theory*, 3rd ed, in library reserve and bookstore, \$280.

Salanié, B. (1999). *The Economics of Contracts: A Primer*. MIT Press.

Wang, S. (2012). *Microeconomic Theory*. McGraw-Hill, \$209.

Papers

Bhattacharyya, S. and F. Lafontaine (1995): "Double-Sided Moral Hazard and the Nature of Share Contracts," *RAND Journal of Economics*, 26 (4), 761-781.

Holmström, B. (1979): "Moral Hazard and Observability," *Bell Journal of Economics*, 10, 74-91.

Kim, S.K. and S. Wang (1998): "Linear Contracts and the Double Moral-Hazard," *Journal of Economic Theory*, 82, 342-378.

Wang (2016). Definition of Incomplete Contracts. Working Paper.

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Course Website

www.bm.ust.hk/~sswang/5330/, which contains slides, reading materials and problem sets.

4. Arrangement

Course Prerequisites

- (1) Micro Analysis (ECON5130 or higher)
- (2) Basic math knowledge and advanced optimization methods.

Problem Sets and Exam

Problem Set: There is only one problem set for the second topic. No need to hand in the problem set.

Exam: There is one midterm exam, covering the first two topics.

Paper Review: I will select 3 papers for all and you pick one to do a paper review. I will give you a template for your review, which specifies what you need to do in your paper review. How well you do in the review will depend on what you learn from Topics 3 and 4 in class.

Grading Policy

The exam counts for 100%.

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