

Information Economics

ECON5330, Spring 2020

Classroom: Room 1007. ID 762-790-806

Class: Monday, 9am-11:40

Instructor: Wang Susheng

Office: Room 6006. ID 824-333-8415

Tel: 2358-7600

Email: s.wang@ust.hk

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.

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 (Wang 2016)

Topic 4: Organization Theory and Its Applications (Papers)

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*, 2nd ed. McGraw-Hill, \$209.

Wang, S. (2016). *Microeconomic Theory*, 3rd ed. Free PDF version.

Papers

Bhattacharyya, S.; Lafontaine, F. 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.; Wang, S. 1998. Linear Contracts and the Double Moral-Hazard. *Journal of Economic Theory*, 82, 342-378.

Wang, S. 2016. Definition of Incomplete Contracts. Working Paper.

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: One problem set for each of the first two topics. No need to hand in your answers.

Exam: There is one exam. It will be in May and it will be arranged by the university.

Grading Policy

The exam counts for 100%.