Course Details

**Venue:** Geol 265: TR 14:30-15:50

**This course is taught together with Econ 898.3.**

**Course Objective:** Contract theory is the field of economics concerns itself with finding and understanding mechanisms that allow for mutually beneficial trade in situations of information asymmetry. Contract theory addresses a large number of practically important questions, such as: What types of contracts do insurers offer to their clients? Who can get insurance? What salary patterns and career paths should firms offer their employees? What auction mechanism yields the highest return? Who should own a firm?

This course introduces the central concepts and methods used in contract theory. It presents a number of classic results, and equips students with the analytical tools to find efficient solutions for problems under asymmetric information.

**Prerequisites:** Econ204, Econ211 (or Econ213), and Econ306 or other courses that provide a similar background in microeconomics and calculus, and some basics in statistics

**Instructor**

Andreas Pollak  
Arts 922  
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**Office Hours:** Tuesday, 11:00-12:00 and Thursday, 4:00-4:30

Course Description and Grading

During this term, you will write two exams and work on a number of assignments. You may also give a presentation, if you want to. There are four components to your grade:

<table>
<thead>
<tr>
<th>Description</th>
<th>Date/deadline</th>
<th>Weight</th>
<th>Weight (Econ898)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assignments</td>
<td>TBA</td>
<td>20%</td>
<td>-</td>
</tr>
<tr>
<td>Midterm Exam</td>
<td>February 11</td>
<td>20%</td>
<td>25%</td>
</tr>
<tr>
<td>Presentation</td>
<td>TBA (not required)</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>Participation</td>
<td>TBA</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>Final Exam</td>
<td>TBA</td>
<td>55%</td>
<td>70%</td>
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If you do not write the midterm or if you get a higher grade on the final than on the midterm, the weight of the midterm will be shifted to the final exam.

**Exams:** Exams will be cumulative and test your understanding of the subject material and your ability to analyze and formulate solutions to specific problems. The assignments are intended to assist you in the preparation for the exams. In the final exam, you will be able to exclude one topic of your choice we have covered. All exams are closed book. Note that no electronic devices will be permitted during examinations, with the exception of approved calculators without programming or communication functions.

**Assignments:** A number of problem sets will be distributed during the term. Each of them will consist of a number of questions, and each question has a weight assigned to it (typically 3% to 6%). You should submit solutions to questions worth at least 20% during the term. The quality of your answers will count towards you final grade. If you submit solutions worth more than 20% in total, only the best 20% will be counted. The problem sets will be discussed in class.

**Presentation:** Students at the 800-level are required to give a 20-minute presentation. You may do so voluntarily.

**498 vs. 898:** For your information, these are the most important differences between the 400 and 800-level versions of this course:

- Students taking the course at the 800-level do get credit for solving assignment questions.
- The weights of the exams in the final grade are different (see table above).
- 800-level students have to do a presentation.
- The reading list for 800-level students includes classic articles in the field.
- The exams are different, and 400-level students will be able to exclude a topic of their choice from the final exam.

| Textbooks |


**Other references:**
Salanié, B. (1997), Contract Theory: A Primer, MIT Press

### Tentative Course Outline and Readings

1. **Introduction**  
   **BD, Chapter 1**

2. **Moral Hazard**  
   **BD, Chapters 4 and 6**  

3. **Adverse Selection: Signalling and Screening**  
   **BD, Chapters 2 and 3**  

4. **Multilateral Contracting: Auctions and Mechanism Design**  
   **BD, Chapter 7**  

5. **Dynamic Adverse Selection: Renegotiation**  
   **BD, Chapter 9**


6. Incomplete Contracts and Institution Design

**BD, Chapter 11**


**Required** readings are printed in **bold** font.

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### Academic Integrity

This course will conform to the academic requirements and standards for graduate courses, including the rules of **Student Appeals in Academic Matters** (see [http://www.usask.ca/university_council/reports/12-06-99.shtml](http://www.usask.ca/university_council/reports/12-06-99.shtml)) and **Academic Honesty** (see [http://www.usask.ca/honesty/](http://www.usask.ca/honesty/)).

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### Attachment