Course Details

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

This course is taught together with Econ 498.3.

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 and Econ800 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, work on a number of problem sets, and do a presentation. There are three components to your grade:

<table>
<thead>
<tr>
<th>Description</th>
<th>Date</th>
<th>Weight</th>
<th>Weight (Econ498)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Problem Sets</td>
<td>TBA</td>
<td>-</td>
<td>20%</td>
</tr>
<tr>
<td>Midterm Exam</td>
<td>February 11</td>
<td>25%</td>
<td>20%</td>
</tr>
<tr>
<td>Presentation</td>
<td>TBA</td>
<td>-</td>
<td>(not required)</td>
</tr>
<tr>
<td>Participation</td>
<td></td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>Final Exam</td>
<td>TBA</td>
<td>70%</td>
<td>55%</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 problem sets are intended to assist you in the preparation for the exams. All exams are closed book. Note that no electronic devices will be permitted during examinations, with the exception of calculators without memory or e-mail functions.

**Problem Sets:** There will be several problem sets, covering all major topics of the course. You can hand them in to get feedback, but your performance on these problem sets will not count towards your final grade. The problem sets will be discussed in class.

**Presentation:** All students will be *required* to give a short (20-30 min) presentation on a topic of their choice (related to contract theory, of course) during the second half of the term. It is recommended to present either a classic research paper, or to discuss an interesting application of contract theory. A list of possible topics will be provided.

**898 vs. 498:** 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 400-level can get up to 20% credit for solving a number of problem set questions of their choice.
- The weights of the exams in the final grade are different (see table above).
- The reading list for 400-level students is confined to the textbook.
- 400-level students do not have to do a presentation (although they may volunteer to do so).
- The exams are different, and 400-level students will be able to exclude a topic of their choice from the final exam.

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**Textbooks**

**Required Textbook:**

**Other references:**

### 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.

**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/)).

**Attachment**