

University of Paris-Saclay

Master in Economics

ENSAE

Year 2018-2019

Fall 2018

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THEORY of CONTRACTS and INCENTIVES

The course will focus on basic building blocks in the Theory of Incentives, with applications to the firm, organizations and labour contracts.

Course Outline

Part 1. The Principal-Agent Model under Pure Moral Hazard

Grossman and Hart's model — The first-order approach — Holmström's Informativeness Principle — The Multitask Agent Problem.

Part 2. The Principal-Agent Problem under Pure Adverse Selection

Introduction to Mechanism Design — Revelation Principle — Informational Rents and Second-best distortions --- Countervailing incentives --- Application to Optimal Regulation — Baron and Myerson's Model — Laffont and Tirole's Model.

Part 3. Incentives in Teams

Incentives in Teams: Coordination and Authority — Teams with incomplete information — Yardstick Competition — Tournaments

Part 4. Introduction to Dynamic Problems

Implicit or Self-enforcing contracts — Efficiency Wages à la Shapiro-Stiglitz — MacLeod and Malcomson's Complete Information Model — Theory of Career Concerns — Promotions and Hierarchies — Implicit and Explicit Incentives combined — Relational Contracts.

REFERENCES

Textbooks

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Edward P. Lazear (1995), *Personnel Economics*, MIT Press, Cambridge, Massachusetts.

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Some Articles

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Ke, Rongzhu, Li, Jin and Michael Powell (2018), "Managing Careers in Organizations", *Journal of Labor Economics*, **36**(1), 197-252.

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Shapiro, Carl and Joseph E. Stiglitz (1984), "Equilibrium Unemployment as a Worker Discipline Device," *American Economic Review*, **74**, 433-444.