

School of Economics and Finance

ECON 405 Microeconomics B

Second Trimester 2005

COURSE OUTLINE

Lecturers:

Paul Calcott	RH 324	463-6585	paul.calcott@vuw.ac.nz
Vladimir Petkov	RH 311	463-6190	vladimir.petkov@vuw.ac.nz

Timetable: RLWY 220 Thur 3:40-6:00

Course content

This course introduces the advanced microeconomics of contracts. The first two lectures review the concept of complementarity and introduce supermodularity. The following lectures deal with the theory of incomplete contracts. Topics include the property rights theory of the firm, and contractual remedies for hold-up. After the mid-term break, we turn to multitasking and distortion in situations with moral hazard. We will use this approach to examine how sharp incentives should be, and how jobs should be designed. We also review the incentive-system theory of the firm.

Mathematical requirements

The mathematical level of ECON 405 should be no more demanding than ECON 404. However, if you have not taken a course in game theory, such as ECON 314, then it might be advisable to do some background reading.

Topics

Complementarity

1. Strategic complements
2. Comparative statics and supermodularity

Incomplete contracts and contract renegotiation

3. Incentives for specific investments
4. The property rights approach to vertical integration
5. Partially incomplete contracts
6. Co-operative investments and non-contractability

Multitasking, moral hazard and task allocation

7. Linear contracts in the presence of moral hazard
8. Multitasking with some unobservable outcomes
9. Manipulation of performance measures

Reputation and delegation

10. Strategic delegation in oligopolistic games
11. Reputation building with asymmetric information
12. Formal and real authority in organizations

Assessment (two) assignments: (40%)

exam: (60%)

Late assignments will attract a penalty of 5% a day.

Silent non-programmable calculators will be allowed in the exam.

Announcements, assignment questions, supplementary reading and other course information will be posted on Blackboard.

Readings:

There is no textbook. A handbook of readings is available from the student notes shop.

Reference books

The following three graduate textbooks in microeconomics and industrial organisation might be useful for the first part of the course. They will be on three-day loan.

D Kreps, *A course in microeconomic theory*, 1990, Princeton U.P.

A Mas-Collel, M Whinston and J Green, *Microeconomic theory*, 1995, OUP.

J Tirole, *Industrial organization*, 1988, MIT Press.

If you did ECON 314 last year, your textbook for that course will still be useful. This was

J Watson, *Strategy: an introduction to game theory*, 2002, Norton

It might be advisable to buy a copy if you have not taken a course with a substantial amount of game theory, such as ECON 314. The 314 textbook in 2001 was

E Rasmusen, *Games and information*, 3rd ed, 2001, Blackwell.

This is somewhat more advanced than Watson's book, with a different mix of topics.

General University policies and statutes

Students should familiarise themselves with the University's policies and statutes, particularly those regarding assessment and course of study requirements, and formal academic grievance procedures.

Student Conduct and Staff Conduct

The Statute on Student Conduct together with the Policy on Staff Conduct ensure that members of the University community are able to work, learn, study and participate in the academic and social aspects of the University's life in an atmosphere of safety and respect. The Statute on Student Conduct contains information on what conduct is prohibited and what steps can be taken if there is a complaint. For queries about complaint procedures under the Statute on Student Conduct, contact the Facilitator and Disputes Advisor. This Statute is available in the Faculty Student Administration Office or on the website at:

<http://www.vuw.ac.nz/policy/StudentConduct>.

The policy on Staff Conduct can be found on the VUW website at:

<http://www.vuw.ac.nz/policy/StaffConduct>.

Academic Grievances

If you have any academic problems with your course you should talk to the tutor or lecturer concerned or, if you are not satisfied with the result of that meeting, see the Head of School or the Associate Dean (Students) of your Faculty. Class representatives are available to assist you with this process. If, after trying the above channels, you are still unsatisfied, formal grievance procedures can be invoked. These are set out in the Academic Grievances Policy which is published on the VUW website:

<http://www.vuw.ac.nz/policy/AcademicGrievances>.

Academic integrity and plagiarism

Academic integrity is about honesty - put simply it means **no cheating**. All members of the University community are responsible for upholding academic integrity, which means staff and students are expected to behave honestly, fairly and with respect for others at all times.

Plagiarism is a form of cheating which undermines academic integrity. Plagiarism is **prohibited** at Victoria.

The University defines plagiarism as follows: Plagiarism is presenting someone else's work as if it were your own, whether you mean to or not.

'Someone else's work' means anything that is not your own idea, even if it is presented in your own style. It includes material from books, journals or any other printed source, the work of other students or staff, information from the Internet, software programmes and other electronic material, designs and ideas. It also includes the organization or structuring of any such material.

Plagiarism is not worth the risk.

Any enrolled student found guilty of plagiarism will be subject to disciplinary procedures under the Statute on Student Conduct (www.vuw.ac.nz/policy/studentconduct) and may be penalized severely. Consequences of being found guilty of plagiarism can include:

- an oral or written warning
- suspension from class or university
- cancellation of your mark for an assessment or a fail grade for the course

Find out more about plagiarism and how to avoid it, on the University's website at: www.vuw.ac.nz/home/studying/plagiarism.html.

Students with Disabilities

The University has a policy of reasonable accommodation of the needs of students with disabilities. The policy aims to give students with disabilities an equal opportunity with all other students to demonstrate their abilities. If you have a disability, impairment or chronic medical condition (temporary, permanent or recurring) that may impact on your ability to participate, learn and/or achieve in lectures and tutorials or in meeting the course requirements, then please contact the Course Coordinator as early in the course as possible. Alternatively you may wish to approach a Student Adviser from Disability Support Services to confidentially discuss your individual needs and the options and support that are available. Disability Support Services are located on Level 1, Robert Stout Building, or phoning 463-6070, email: disability@vuw.ac.nz. The name of your School's Disability Liaison Person can be obtained from the Administrative Assistant or the School Prospectus.

Student Support

Staff at Victoria want students' learning experiences at the University to be positive. If your academic progress is causing you concern, please contact the relevant Course Co-ordinator, or Associate Dean who will either help you directly or put you in contact with someone who can.

The Student Services Group is also available to provide a variety of support and services. Find out more at http://www.vuw.ac.nz/st_services/ or email student-services@vuw.ac.nz.

VUWSA employs two Education Coordinators who deal with academic problems and provide support, advice and advocacy services, as well as organising class representatives and faculty delegates. The Education Office is located on the ground floor, Student Union Building, phone 463 6983 or 463 6984, email education@vuwsa.org.nz.