

**Staff:**

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**Lectures:** RHG03 Fri 10:00-12:00

This course introduces the advanced microeconomics of contracts. The first part of the course deals with the theory of incomplete contracts, including damages for breach of contract and the implications for asset ownership. This part of the course also reviews comparative static analysis, with an emphasis on the concepts of complementarity and supermodularity. 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. Then we explore some topics in reputation and delegation.

**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 and incomplete contracts (Paul)*

1. Damages for breach of contract
2. Traditional comparative statics
3. Supermodularity
4. Incentives for specific investments
5. Asset ownership and underinvestment
6. Damages when renegotiation is possible

*Multitasking, moral hazard and task allocation (Vlado)*

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

*Reputation and delegation (Vlado)*

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

**Assessment:**

2 assignments	20% each	18 Aug & 6 Oct
2 hour final Exam	19 Oct - 11 Nov	60%

Assignments that are late without permission will attract **penalties** of 5% a day. Essays will only be assessed up to the word limit.

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

The official **expected workload** is 150 hours, or 12 to 13 per week.

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

### **Readings:**

There is no textbook. Readings will be made available via Blackboard.

### **Reference books**

The following three graduate textbooks in microeconomics and industrial organisation might be useful in providing background. They will be available on three-day loan from the library.

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

A Mas-Colell, 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. An alternative treatment is given by:

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

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

## **Faculty of Commerce and Administration Offices**

### Railway West Wing (RWW) - FCA Student and Academic Services Office

The Faculty's Student and Academic Services Office is located on the ground and first floors of the Railway West Wing. The ground floor counter is the first point of contact for general enquiries and FCA forms. Student Administration Advisers are available to discuss course status and give further advice about FCA qualifications. To check for opening hours call the Student and Academic Services Office on (04) 463 5376.

### Easterfield (EA) - FCA/Education/Law Kelburn Office

The Kelburn Campus Office for the Faculties of Commerce and Administration, Education and Law is situated in the Easterfield Building - it includes the ground floor reception desk (EA005) and offices 125a to 131 (Level 1). The office is available for the following:

- Duty tutors for student contact and advice.
- Information concerning administrative and academic matters.
- Forms for FCA Student and Academic Services (e.g. application for academic transcripts, requests for degree audit, COP requests).
- Examinations-related information during the examination period.

To check for opening hours call the Student and Academic Services Office on (04) 463 5376.

## **General University Policies and Statutes**

Students should familiarise themselves with the University's policies and statutes, particularly the Assessment Statute, the Personal Courses of Study Statute, the Statute on Student Conduct and any statutes relating to the particular qualifications being studied; see the Victoria University Calendar available in hard copy or under 'About Victoria' on the VUW home page at <http://www.vuw.ac.nz/>.

## **Student 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 are to be taken if there is a complaint. For information about complaint procedures under the Statute on Student Conduct, contact the Facilitator and Disputes Advisor or refer to the statute on the VUW policy 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; class representatives may be able to help you in this. If you are not satisfied with the result of that meeting, see the Head of School or the relevant Associate

Dean; VUWSA Education Coordinators are available to assist in 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 at: <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. The University defines plagiarism as follows:

*The presentation of the work of another person or other persons as if it were one's own, whether intended or not. This includes published or unpublished work, material on the Internet and the work of other student or staff.*

It is still plagiarism even if you re-structure the material or present it in your own style or words.

*Note: It is however, perfectly acceptable to include the work of others as long as that is acknowledged by appropriate referencing.*

Plagiarism is prohibited at Victoria and is not worth the risk. Any enrolled student found guilty of plagiarism will be subject to disciplinary procedures under the Statute on Student Conduct and may be penalised severely. Consequences of being found guilty of plagiarism can include:

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

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

## **Students with Impairments**

The University has a policy of reasonable accommodation of the needs of students with disabilities. The policy aims to give students with disabilities the same opportunity as 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, 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 (DSS) to discuss your individual needs and the available options and support on a confidential basis. DSS are located on Level 1, Robert Stout Building, telephone (04) 463 6070, email [disability@vuw.ac.nz](mailto:disability@vuw.ac.nz). The name of your School's Disability Liaison Person is in the relevant prospectus or can be obtained from the School Office or DSS.

## **Student Support**

Staff at Victoria want students to have positive learning experiences at the University. Each Faculty has a designated staff member who can either help you directly if your academic progress is causing you concern, or quickly put you in contact with someone who can. Assistance for specific groups is also available from the Kaiwawao Māori, Manaaki Pihipihinga or Victoria International.

In addition, the Student Services Group (email [student-services@vuw.ac.nz](mailto:student-services@vuw.ac.nz)) is available to provide a variety of support and services. Find out more at [http://www.vuw.ac.nz/st\\_services/](http://www.vuw.ac.nz/st_services/)

VUWSA employs 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 (tel. (04) 463 6983 or (04) 463 6984, email [education@vuwsa.org.nz](mailto:education@vuwsa.org.nz)) is located on the ground floor, Student Union Building.

## **Manaaki Pihipihinga - Māori and Pacific Mentoring Programme (Faculty of Commerce and Administration)**

This is a mentoring service for Māori and Pacific students studying at all levels. Weekly one hour sessions are held at the Kelburn and Pipitea Campuses in the Mentoring Rooms, 14 Kelburn Parade, and Room 210 and 211, Level 2, Railway West Wing. Sessions cover drafting and discussing assignments, essay writing, and any questions that may arise from tutorials and/or lectures. A computer suite networked to Cyber Commons is available for student use.

To register with Manaaki Pihipihinga, please contact one of the following:

Puawai Wereta  
Room 210, Level 2  
Railway West Wing  
Tel. (04) 463 8997  
Email: [Puawai.Wereta@vuw.ac.nz](mailto:Puawai.Wereta@vuw.ac.nz)

Fa'afai Seiuli  
Room 109 B  
14 Kelburn Parade  
Tel. (04) 463 5842  
Email: [Faafoi.Seiuli@vuw.ac.nz](mailto:Faafoi.Seiuli@vuw.ac.nz)