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ECON 405

Microeconomics B

2007 2/3

School of Economics and Finance

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**Staff:**

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|-----------------|--------|----------|------------------------------------------|
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**Lectures:** GB G05 Tues 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 | 17 Aug & 5 Oct |
| 2 hour final Exam | date tba | 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 or go to [www.vuw.ac.nz/policy](http://www.vuw.ac.nz/policy).

For information on the following topics, go to the Faculty's website [www.vuw.ac.nz/fca](http://www.vuw.ac.nz/fca) under Important Information for Students:

- Academic Grievances
- Academic Integrity and Plagiarism
- Student and Staff Conduct
- Meeting the Needs of Students with Impairments
- Student Support

## **Manaaki Pihipihinga Programme**

Manaaki Pihipihinga is an academic mentoring programme for undergraduate Māori and Pacific students in the Faculties of Commerce and Administration, and Humanities and Social Sciences. Sessions are held at the Kelburn and Pipitea Campuses in the Mentoring Rooms, 14 Kelburn Parade (back courtyard), Room 109D, and Room 210, Level 2, Railway West Wing. There is also a Pacific Support Coordinator who assists Pacific students by linking them to the services and support they need while studying at Victoria. Another feature of the programme is a support network for Postgraduate students with links to Postgraduate workshops and activities around Campus.

For further information, or to register with the programme, email [manaaki-pihipihinga-programme@vuw.ac.nz](mailto:manaaki-pihipihinga-programme@vuw.ac.nz) or phone (04) 463 5233 ext. 8977. To contact the Pacific Support Coordinator, email [pacific-support-coord@vuw.ac.nz](mailto:pacific-support-coord@vuw.ac.nz) or phone (04) 463 5842.