

School of Economics and Finance

## **Econ405 MICROECONOMICS B**

Trimester Two 2009

### **COURSE OUTLINE**

---

#### **Names and Contact Details**

##### **Staff:**

Paul Calcott	RH324	463-6585	<a href="mailto:paul.calcott@vuw.ac.nz">paul.calcott@vuw.ac.nz</a>
Vladimir Petkov	RH311	463-6190	<a href="mailto:vladimir.petkov@vuw.ac.nz">vladimir.petkov@vuw.ac.nz</a>

#### **Trimester Dates**

Teaching Period: Monday 13 July to Friday 16 October 2009

End of Year Study Period: Monday 19 October to Monday 26 October 2009

Examination Period: Tuesday, 27 October to Saturday 14 November 2009 (inclusive)

**Note: Students who enrol in courses with examinations should be able to attend an examination at the University at any time during the formal examination period.**

**Withdrawal dates:** Information available via

<http://www.victoria.ac.nz/home/admisenrol/payments/withdrawalsrefunds.aspx>

#### **Class Times and Room Numbers**

**Lectures:** . RWW128 Mon 09:30 – 11:20

#### **Course Content**

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.

#### **Course Learning Objectives**

C1 comprehend and articulate the issues of damages for breach of contract;

C2 be able to carry out comparative statics analysis;

C3 apply supermodularity techniques;

- C3 understand incentives for specific investments;
- C4 comprehend the relationship between asset ownership and underinvestment;
- C5 analyse models of damages when renegotiation is possible;
- C6 characterise optimal linear contracts in the presence of moral hazard;
- C7 understand the difference between precision and distortion of performance measures;
- C8 explain the principles of strategic delegation in oligopolistic games;
- C9 analyse simple models of reputation building with asymmetric information;
- C10 distinguish between formal and real authority in organizations.

### **Course delivery**

The course will be delivered in the form of weekly two-hour lectures.

### **Expected Workload**

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

### **Readings**

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

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-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. 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.

### **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.

### **Assessment Requirements**

2 assignments	20% each	21 Aug & 16 Oct
2 hour final exam	60%	date tba

*Note: Your assessed work may also be used for quality assurance purposes, such as to assess the level of achievement of learning objectives as required for accreditation and audit purposes. The findings may be used to inform changes aimed at improving the quality of FCA programmes. All material used for such processes will be treated as confidential, and the outcome will not affect your grade for the course.*

**Examinations**

The final examination for this course will be scheduled at some time during the period from Tuesday 27 October to Saturday 14 November 2009.

**Penalties**

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

**Mandatory Course Requirements**

Students must sit the final exam

**Communication of Additional Information**

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

**For the following important information follow the links provided:**

**Academic Integrity and Plagiarism**

<http://www.victoria.ac.nz/home/study/plagiarism.aspx>

**General University Policies and Statutes**

<http://www.victoria.ac.nz/home/about/policy/academic.aspx>

**Faculty of Commerce and Administration Offices**

<http://www.victoria.ac.nz/fca/studenthelp/Contactus.aspx>

**Manaaki Pihipihinga Programme**

[http://www.victoria.ac.nz/st\\_services/mentoring/](http://www.victoria.ac.nz/st_services/mentoring/)