

School of Economics and Finance

ECON 405 ADVANCED MICROECONOMIC THEORY B

Trimester 2, 2013

COURSE OUTLINE

Names and Contact Details

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Trimester Dates

Teaching Period: Monday 15 July – Friday 18 October

Study Period: Monday 21st October – Thursday 24 October

Examination Period: Friday 25 October – Saturday 16 November (inclusive)

Withdrawal from Course

1. Your fees will be refunded if you withdraw from this course on or before Friday 26 July 2013.
2. The standard last date for withdrawal from this course is Friday 27 September. After this date, students forced to withdraw by circumstances beyond their control must apply for permission on an ‘*Application for Associate Dean’s Permission to Withdraw Late*’ including supporting documentation. The application form is available from either of the Faculty’s Student Customer Service Desks.

Class Times and Room Numbers

Lectures Mon 09:30 – 11:20 RWW126

Course Delivery

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

Expected Workload

The expected workload includes 2 hours of lectures and 4 hours of preparation per week during the trimester; 5 hours for each of the assignments; 20 hours of preparation during the study week.

Prescription

This course applies game-theoretic models to contracts, incentives 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** 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 Content

This course introduces the advanced microeconomics of contracts. We begin with some tools for comparative statics; supermodularity and the implicit function theorem. Then we turn to applications: contracts, the theory of incomplete contracts, including damages for breach of contract and the implications for asset ownership. 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.

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-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.

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

2 assignments	20% each	dates tba
2 hour final exam	60%	date tba

Penalties

Assignments that are late without permission will attract penalties of 5% a day.

Examinations

Students who enrol in courses with examinations are obliged to attend an examination at the University at any time during the formal examination period. The final examination for this course will be scheduled at some time during the following period:

Friday 25 October – Saturday 16 November (inclusive)

Mandatory Course Requirements

Students must sit the final exam

If you cannot complete an assignment or sit a test or examination, refer to

www.victoria.ac.nz/home/study/exams-and-assessments/aegrotat

Communication of Additional Information

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

Student feedback

Student feedback on University courses may be found at

www.cad.vuw.ac.nz/feedback/feedback_display.php

Link to general information

For general information about course-related matters, go to

<http://www.victoria.ac.nz/vbs/studenthelp/general-course-information>

Note to Students

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 academic audit. The findings may be used to inform changes aimed at improving the quality of VBS programmes. All material used for such processes will be treated as confidential, and the outcome will not affect your grade for the course.
