

School of Economics and Finance

## **ECON405 ADVANCED MICROECONOMIC THEORY B**

Trimester 2, 2014

### **COURSE OUTLINE**

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

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Course coordinator: Vladimir Petkov

#### **Trimester Dates**

Teaching Period: Monday 14<sup>th</sup> July – Friday 17<sup>th</sup> October

Study Period: Monday 20<sup>th</sup> October – Thursday 23<sup>rd</sup> October

Examination Period: Friday 24<sup>th</sup> October – Saturday 15<sup>th</sup> November (inclusive)

#### **Withdrawal from Course**

1. Your fees will be refunded if you withdraw from this course on or before Friday 25<sup>th</sup> July 2014.
2. The standard last date for withdrawal from this course is Friday 26<sup>th</sup> 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 11:30 – 13:20 RWW128

#### **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

From Trimester 1, 2014, a revised Assessment Handbook will apply to all VUW courses: see <http://www.victoria.ac.nz/documents/policy/staff-policy/assessment-handbook.pdf>.

In particular, there will be a new grade scheme, in which the A+ range will be 90-100% and 50-54% will be a C-.

### **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 24<sup>th</sup> October – Saturday 15<sup>th</sup> November (inclusive)

### **Mandatory Course Requirements**

In addition to obtaining an overall course mark of 50 or better, 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](http://www.victoria.ac.nz/home/study/exams-and-assessments/aegrotat)

### **Class Representative**

A class representative will be selected in the first week, and that person's name and contact details made available to VUWSA, the Course Coordinator and the class. The class representative provides a communication channel to liaise with the Course Coordinator on behalf of students.

### **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](http://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.

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