<u>Economics of Information: Incentives and contracts</u>

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- **Content: An introduction to the economics of information, presenting models of moral hazard, adverse selection, and signaling.**

- **Objective: The students must realize that many forms of economic interaction involve problems of asymmetric information, and should be able to differentiate between problems of moral hazard and adverse selection. The students should be able to handle models that capture various kinds of informational asymmetry and construct models in their own research field.**

CONTENT

Introduction to Agency Theory

Basic Model

Moral Hazard

- One principal and one agent models (two-efforts and first-order approach)
- Limited liability models
- Multi-agent models
- Repeated moral hazard
- Moral hazard with hidden information
- Other extensions

Adverse Selection

- One principal and one agent models
- Competition among principals
- Repeated adverse selection

Signaling

- Agents signal their characteristics
- The informational content of contracts

Basic references

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