Instructor: Prof. Huseyin Yildirim, Soc. Sci. 205, <email: hy12@duke.edu>

Time and Location: TTh 8:30 - 9:45AM, Social Sciences 111

Office Hour: By appointment


Optional: Contract Theory by Patrick Bolton and Mathias Dewatripont, MIT Press [B-D]

Objective: A contract is a legally binding agreement between two or more parties. Think of your rental agreement and school admission letter. In this class, we will review the basic principal-agent model in which two potential imperfections, hidden information (or adverse selection) and hidden action (or moral hazard), govern the efficiency and scope of contracts. The emphasis will be on modeling and solution techniques.

Grading:

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Referee Report: You are expected to write a 2.5-5 page report on a research article related to topics below. The report should include: an overview (main idea, key elements of the model, the solution technique, key formal results) (1-2 pages); an overall assessment (as to potential publication) (.5-1 page); and comments (pointed, specific) (1-2 pages).

Tentative Schedule:

- Adverse selection: binary types, Chapter 2 [1-9, 11, 14-5]
- Adverse selection: continuum types, Chapter 3 [Appendix]
- Adverse selection with moral hazard: Laffont-Tirole Model [paper and own notes]
- Adverse selection: dynamic contracts, sequential screening [papers and own notes]
- Contracting with Multiple Agents
- Moral Hazard: binary outcome, Chapters 4-5 [L-M], Chapter 4 [B-D]
- Moral Hazard: First-Order Approach Chapter 4 [B-D]

FINAL EXAM (Tuesday, February 26, in class)
Suggested Reading


