Microeconomics II
Doctoral program in Economics and Management
Univ. Padova, 2012
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OBJECTIVE. The course objective is to introduce the main issues in information economics and contracts. Through applied models we shall illustrate the notions of adverse selection, moral hazard, and signaling.

TOPICS

The space of contingent goods and demand for insurance

1. Laffont, The Economics of Uncertainty and Information, MIT Press 1989.
2. Pratt theorem.
3. Arrow-Pratt approximation.

Adverse selection and moral hazard in insurance

4. Demand for insurance and adverse selection. The incentive compatibility constraint. Rothschild-Stiglitz, *Quarterly Journal of Economics,* 1976 and Tirole p.160.
5. Introduction to the Revelation Principle, Mas Colell, Whinston, Green, Microeconomic Theory, Oxford University Press 1995.
6. Intertemporal demand for insurance. Diamond-Dybvig, *J. Political Economy* 1983.
7. Demand for insurance under moral hazard; Laffont, The Economics of Uncertainty and Information, MIT Press 1989.

Applications of adverse selection

8. Credit rationing with adverse selection. Stiglitz-Weiss, *American Economic Review*, 1981.
9. Bester, H. “Screening vs Rationing in credit markets with imperfect information” *American Economic Review* 1985, 57:850-855.
10. Laffont-Tirole, “Using Cost Observations to Regulate Firms” *J. Political Economy* 1986.

Models of incentives and moral hazard: the principal agent problem

11. Holmstrom, *Bell Journal of Economics*, 1979.
12. Moral hazard and optimality of linear contracts. Multitask principal agent. Milgrom and Roberts, Economics, Organizations and Management, ch. 7 and appendix.
13. Applications of moral hazard to ownership structure: Tirole, Corporate Governance, *Econometrica*, 2001 november.

Signalling applications to financial decisions

14. Leland-Pyle, *Journal of Finance*, 1977.
15. Signaling through dividends. Bhattacharya, Bell *Journal of Economics and Management* 1977.

Market microstructure

16. The impossibility of competitive efficient financial markets: the model by Grossman-Stiglitz *American Economic Review* 1980.
17. Basic bid-ask spread in adverse selection: Copeland-Galai, Information Effects in the Bid-Ask Spread *J. of Finance* 1983.

Costly state verification

18. Townsend , *J. of Economic Theory* 1979.
19. Williamson, *Quarterly Journal of Economics*, vol 102, February, 1987.

COURSE EVALUATION: Homework 25%; Final exam 75%.

OTHER USEFUL REFERENCE
Mas Colell, Whinston, Green, Microeconomic Theory, Oxford University Press 1995.