Syllabus, Ec717a: Contract Theory: Part 1

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Fall 2015, Boston University Department of Economics

This is the first half of a course devoted to contract and organization theory. While it is an elective course for the micro theory field, it should be useful for students interested in applications to fields such as industrial organization, public economics and health economics.

This part of the course provides an introduction to mechanism design theory and its applications to pricing, auctions, bargaining, public goods, hierarchies and corruption. We start by learning how to solve for optimal contracts with a single agent in a static setting. This is subsequently extended to contexts with multiple agents in a static setting, covering topics in bargaining, auctions and public goods. This will be followed by dynamic extensions, with applications to durable goods monopoly and relational contracts. Finally, we shall consider applications to internal organization of firms and control of corruption.

A good reference for much of the material for all but the last section is the following textbook:


It is more essential for you to read key journal articles or working papers, listed below.

**Class:** M,W 2-330, SSW546, Sept 2 – Oct 21.

**Office Hours:** W330-5pm, Th2-330pm (Room 500A, 264 Bay State Road)

**Course website:** http://people.bu.edu/dilipm/ec717/717hmpg.html

**Prerequisites:** First Year PhD courses in micro (Ec701, 703) or equivalent

**Exams and Grading:** Combination of a midterm, class presentations and a research proposal for a 2nd year paper (weights to be decided)

**Academic Conduct:** You are expected to know and understand the provisions of the CAS Academic Conduct Code. Cases of suspected academic misconduct will be referred to the Deans Office.

**Sessions and Readings:**

1. **Single-Agent Adverse Selection (Sept 2,9):** Optimal contracts for a single agent with private information: two types; continuum of types [BD, Ch. 2, esp. Sections 2.3.1 and 2.3.3; D Baron and R Myerson, “Regulating a Monopolist with Unknown Cost,” Econometrica 1982.]

