

### Reading List

#### **EC537: Microeconomic Theory for Research Students, Part II: Michaelmas Term, weeks 6-10**

This part of the course is based on 5 3-hour lectures.

#### **Course Outline and Readings**

##### **Lecture 1: Contracts what are they? The Coase Theorem, Hidden Information, Bilateral trading.**

**Coase, R. H.** (1960): "The Problem of Social Cost," *The Journal of Law and Economics*, **3**, 1–44.

**Coase, R. H.** (1992): "The Institutional Structure of Production," *The American Economic Review*, **82**, 713–719.

**de Meza, D.** (1988): "Coase Theorem," in *The New Palgrave Dictionary of Economics and the Law*, ed. by P. Newmann, New York: Macmillan, 270–282.

**Sutton, J.** (1986): "Non-Cooperative Bargaining Theory: An Introduction," *Review of Economic Studies*, **53**, 709–724.

**Myerson, R.** (1979): "Incentive Compatibility and the Bargaining Problem," *Econometrica*, **47**, 61–73.

**Chatterjee, K. and W. Samuelson** (1983): "Bargaining under Incomplete Information," *Operations Research*, **31**, 835–51.

**Myerson, R. and M. Satterthwaite** (1983): "Efficient Mechanisms for Bilateral Trading," *Journal of Economic Theory*, **29**, 265–81.

## Lecture 2: Hidden Action, Multi-Tasking, Informed Principal, Intertemporal Incentives.

**Anderlini, L. and L. Felli** (2008): "Agency Problems," in *The New Palgrave Dictionary of Economics*, Second Edition, Steven N. Durlauf and Lawrence E. Blume (Eds.), Palgrave Macmillan.

**Grossman, S. and O. Hart** (1983): "An Analysis of the Principal-Agent Problem," *Econometrica*, **51**, 7–45.

**Hart, O. and B. Holmstrom** (1987): "The Theory of Contracts," in *Advances in Economic Theory, Fifth World Congress*, Truman Bewley ed. Cambridge: Cambridge University Press, 71–155.

**Holmstrom, B.** (1979): "Moral Hazard and Observability," *Bell Journal of Economics*, **10**, 74–91.

**Holmstrom, B. and P. Milgrom** (1987): "Aggregation and Linearity in the Provision of Intertemporal Incentives," *Econometrica*, **55**, 303–28.

**Holmstrom, B. and P. Milgrom** (1991): "Multitask Principal-Agent Analyses," *Journal of Law Economics and Organization*, **7**, special issue.

**Holmstrom, B. and P. Milgrom** (1994): "The Firm as an Incentive System," *American Economic Review*, **84**, 972–91.

**Innes, R.** (1990): "Limited Liability and incentive Contracting with Ex-Ante Action Choices," *Journal of Economic Theory*, **52**, 45–67.

**Jewitt, I.** (1988): "Justifying the First-Order Approach to Principal-Agent Problems," *Econometrica*, **56**, 7–45.

**Maskin, E. and J. Tirole** (1990): "The Principal-Agent Relationship with an Informed Principal: The Case of Private Values," *Econometrica*, **58**, 379–409.

**Maskin, E. and J. Tirole** (1992): “The Principal-Agent Relationship with an Informed Principal II: Common Values,” *Econometrica*, **60**, 1–42.

**Mirrlees, J.** (1976): “The Optimal Structure of Incentives and Authority Within and Organization,” *Bell Journal of Economics*, **7**, 105–31.

**Mirrlees, J.** (1999): “The Theory of Moral Hazard and Unobservable Behaviour: Part I,” *Review of Economic Studies*, **66**, 3–21.

**Myerson, R.** (1983): “Mechanism Design by an Informed Principal,” *Econometrica*, **51**, 1767–98.

**Rogerson, W.** (1985): “The First-Order Approach to Principal-Agent Problems,” *Econometrica*, **53**, 1357–68.

### **Lecture 3: Implementation and the Foundations of Contracting with Unverifiable Information.**

**Al-Najjar, N., L. Anderlini and L. Felli** (2006): “Undescribable Events,” *Review of Economic Studies*, **73**, 849–868.

**Anderlini, L. and L. Felli** (1994): “Incomplete Written Contracts: Undescribable States of Nature,” *Quarterly Journal of Economics*, **109**, 1085–1124.

**Hart, O. and J. Moore** (1988): “Incomplete Contracts and Renegotiation,” *Econometrica*, **56**, 755–785.

**Hart, O. and J. Moore** (1999): “Foundations of Incomplete Contracts,” *Review of Economic Studies*, **66**, 115–138.

**Maskin, E.** (2002): “On indescribable contingencies and incomplete contracts,” *European Economic Review*, **46**, 725–733.

**Maskin, E. and J. Moore** (1999): “Implementation and Renegotiation,” *Review of Economic Studies*, **66**, 39–56.

**Maskin, E. and J. Tirole** (1999): “Unforeseen Contingencies and Incomplete Contracts,” *Review of Economic Studies*, **66**, 83–114.

**Moore, J. and R. Repullo** (1988): “Subgame Perfect Implementation,” *Econometrica*, **56**, 1191–1220.

**Nöldeke, G. and K. Schmidt** (1995): “Option Contracts and Renegotiation: A solution to the Hold-up Problem,” *RAND Journal of Economics*, **26**, 163–179.

**Peters, M. and B. Szentes** (2011): “Definable and Contractible Contracts,” *Econometrica*, forthcoming.

**Segal, I.** (1999): “Complexity and Renegotiation: A Foundation for Incomplete Contracts,” *Review of Economic Studies*, **66**, 57–82.

#### **Lecture 4: Transaction Costs.**

**Anderlini, L. and L. Felli** (2001): “Costly Bargaining and Renegotiation,” *Econometrica*, **69**, 377–411.

**Anderlini, L. and L. Felli** (2006): “Transaction Costs and the Robustness of the Coase Theorem,” *Economic Journal*, **116**, 223–245.

**Bolton, P. and A. Faure-Grimaud** (2009): “Thinking Ahead: The Decision Problem,” *Review of Economic Studies*, **76(4)**, 1205–1238.

**Bolton, P. and A. Faure-Grimaud** (2010): “Satisficing Contracts,” *Review of Economic Studies*, **77(3)**, 937–971.

**Tirole, J.** (2009): “Cognition and Incomplete Contracts” *American Economic Review*, **99**, 265–94.

## Lecture 5: Hold-Up Problem, Specific Investments and Competition.

**Cole, H., G. Mailath, and A. Postlewaite** (2001a): “Efficient Non- Contractible Investments in a Finite Economy,” *BE Press Advances in Theoretical Economics*, 1(1).

**Cole, H., G. Mailath, and A. Postlewaite** (2001b): “Efficient Non- Contractible Investments in Large Economies,” *Journal of Economic Theory*, **101**, 333373.

**de Meza, D. and B. Lockwood** (1998): “Does Asset Ownership Always Motivate Managers? Outside Options and the Property Rights Theory of the Firm,” *Quarterly Journal of Economics*, **113**, 361–386.

**Grossman, S. J. and O. D. Hart** (1986): “The Costs and Benefits of Ownership: A Theory of Vertical and Lateral Integration,” *Journal of Political Economy*, **94**, 691-719.

**Grout, P.** (1984): “Investments and Wages in the Absence of Binding Contracts: A Nash Bargaining Solution,” *Econometrica*, **52**, 449–460.

**Hart, O. D.** (1995): *Firms, Contracts, and Financial Structure*, Oxford: Oxford University Press.

**Hart, O. D. and J. H. Moore** (1990): “Property Rights and the Nature of the Firm,” *Journal of Political Economy*, **98**, 1119-11158.

**Felli, L. and K. Roberts** (2004): “Does Competition Solve the Hold-Up Problem?,” *mimeo*, LSE and Oxford.

**Peters, M.** (2007): “Pre-Marital Investment Game,” *Journal of Economic Theory*, **137**, 186–213.

**Peters, M. and A. Siow** (2002): “Competing Premarital Investments,” *Journal of Political Economy*, **110**, 592609.

**Rajan, R. and L. Zingales** (1998): "Power in the Theory of the Firm," *Quarterly Journal of Economics*, **113**, 387–432.