

“Topics in Incentive Theory: Markets and Contracts”

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This course is centered on a growing literature which extends the traditional theories of incentives and optimal contracting to a competitive framework.

Our focus is on strategic approaches. We first provide a methodological introduction, which aims at revisiting the foundations of mechanism design and its recent extensions to competing mechanism games. We next move to competitive settings, covering both moral hazard and adverse selection economies.

Hopefully, the lectures will provide new insights to evaluate the effects of financial constraints due to the combination of agency problems and competition among intermediaries on economic activity and market performances.

No background beyond first year graduate microeconomics is required, although familiarity with contract theory and information economics is useful.

Outline (18 hours overs three weeks)

1 Theory: Mechanism Design and Competing Mechanisms (Meetings 1-3)

(*) Myerson, R.B. (1982): Optimal Coordination Mechanisms in Generalized Principal-Agent Problems, *Journal of Mathematical Economics*, 10(1): 67–81.

(*) Forges, F. (1986): An Approach to Communication Equilibria, *Econometrica*, 54(6): 1375-1385.

(*) Martimort, D. and L. Stole (2002): The Revelation Principle and the Delegation Principle in Common Agency Games, *Econometrica*, 70(4): 1659-1673.

(*) T. Yamashita (2010): A revelation principle and a folk-theorem for games with multiple principals and multiple agents, *Econometrica*, 78(2):791-801.

(*) B.Szentes (2015): Contractible Contracts in Common Agency Problems, *Review of Economic Studies*, 82(1): 391-422.

- McAfee, R. (1993): Mechanism Design by Competing Sellers, *Econometrica*, 61(6), 1281–1312.

- Peck, J. (1997): A Note on Competing Mechanisms and the Revelation Principle, Unpublished Manuscript, Ohio State University.
- Epstein L. and M. Peters (1999): A revelation principle for competing mechanisms, *Journal of Economic Theory*, 88(1): 119-161.

2 Adverse Selection (Meetings 4-6)

Screening:

- (*) Glosten, L.R. (1994): Is the Electronic Open Limit Order Book Inevitable? *Journal of Finance*, 49(4), 1127–1161.
- (*) Biais, B., D. Martimort, and J.C. Rochet (2000): Competing mechanisms in a common value environment, *Econometrica*, 78(4): 799-837.
- (*) Attar, A., Mariotti, T., and F. Salanie (2011): Non-exclusive competition in the market for lemons, *Econometrica*, 79(6): 1869-1918.
- (*) Attar, A., Mariotti, T., and F. Salanie (2014): Non-exclusive competition under adverse selection, *Theoretical Economics*: 9, 1-40.
- (*) Attar, A., Mariotti, T., and F. Salanie (2021): Entry-Proofness and Discriminatory Pricing under Adverse Selection, *mimeo, Toulouse School of Economics*.
- Baruch S. and L. Glosten (2019): Tail Expectation and Imperfect Competition in Limit Order Book Markets, *Journal of Economic Theory*, 183, 661-697.

Signalling:

- (*) Galperti S. (2015): Common Agency with Informed Principals: Menus and Signals, *Journal of Economic Theory*, 157: 648-667.
- (*) Kurlat, P. and F. Scheuer (2021): Signaling to Experts, *Review of Economic Studies* (forthcoming).
- B. Chang (2018): Adverse Selection and Liquidity Distortion, *The Review of Economic Studies*, 85(1), 275-306.

3 Moral Hazard (Meetings 7-9)

- (*) Fudenberg D., and J. Tirole (1990): Moral hazard and renegotiation in contracts, *Econometrica* 58: 1279-1319.
- (*) Parlour, C. A., and U. Rajan (2001): Competition in Loan Contracts, *American Economic Review*, 91(5): 1311-1328.
- (*) Bisin, A. and D. Guaitoli (2004): Moral Hazard and Nonexclusive Contracts, *Rand Journal of Economics* 35(2): 306-328.
- (*) Attar, A., Casamatta, C., Chassagnon, A. and J.P. Decamps (2019): Multiple Lenders, Strategic Default and Covenants, *American Economic Journal: Microeconomics*, 11(2): 98-130.
- Bolton, P., and D. Scharfstein (1996): Optimal debt structure and the optimal number of creditors, *Journal of Political Economy* 104: 1-25.
- Netzer N., and F. Scheuer (2010): Competitive markets without commitment, *Journal of Political Economy*, 118: 1079-1109.