

“Microeconomics 2: Incentive Theory”

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Description and Requirements: The course covers recent developments in incentive theory. The lectures aim to analyze settings in which mechanism design is constrained by the presence of competitive forces. This leads us to analyze competition among mechanisms, as well as that of situations in which the full commitment assumption can be relaxed, like under limited commitment and renegotiation. The lectures are theoretical in nature. Although no specific prior knowledge is required, familiarity with the basic notions of game theory and elementary logic is helpful.

Exam Rules: The written exam will be held in person and will last two hours. It consists of solving exercises related to the material covered in the first part of the course, and of a critical discussion of the topics raised in the remaining part of the course.

1 Mechanism Design without Full Commitment (Lectures 1-4)

1.1 Theory

(*) 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.

(*) A.Attar, E. Campioni, T. Mariotti and A. Pavan (2025): Keeping Agents in the Dark: Private Disclosures in Competing Mechanisms, *Mimeo TSE*.

- 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- Peck, J. (1997): A Note on Competing Mechanisms and the Revelation Principle, Unpublished Manuscript, Ohio State University.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.

1.2 The Principal-Agent model under Limited Commitment

(*) Bester, H. and R. Strausz, “Contracting with imperfect commitment and noisy communication,” *Journal of Economic Theory*, 2007, 136, 236–259.

(*) - Lomys, N. and T. Yamashita (2025): A Mediator Approach to Mechanism Design with Limited Commitment, *available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4116543*

(*) - Szentes, B., Brzustowski T., and A. Georgiadis-Harris (2023): Smart Contracts and the Coase Conjecture, *American Economic Review*

1.3 Offer vs Bidding Games

(*) - Segal, Y. and M. Whinston (2003): Robust Predictions for Bilateral Contracting under Externality, *Econometrica* 3, 757-791

(*) - Dequiedt, V. and D. Martimort (2015): Vertical Contracting with Informational Opportunism, *American Economic Review* 105(7), 2141-2182

1.4 Mechanism Design under Collusion

(*) - Laffont, J.J. and D. Martimort. (1997): Collusion under Asymmetric Information, *Econometrica*, 65(4), 875–911

(*) Pollich, M. and C. Von Negenborn (2020): Sweet Lemons: Mitigating Collusion in Organizations, *Journal of Economic Theory*, 189.

2 Adverse Selection Economies (Lectures 5-7)

2.1 Screening

(*) Glosten, L.R. (1994): Is the Electronic Open Limit Order Book Inevitable? *Journal of Finance*, 49(4), 1127–1161.

(*) Attar, A., Mariotti, T., and F. Salanie (2011): Non-exclusive competition in the market for lemons, *Econometrica*, 79(6): 1869-1918.

(*) Guerrieri, V., Shimer R. and R. Wright (2010): Adverse Selection in Competitive Search Equilibrium, *Econometrica*, Vol. 78, No. 6 (November, 2010), 1823–1862

(*) Attar, A., Mariotti, T., and F. Salanie (2021): Entry-Proofness and Discriminatory Pricing under Adverse Selection, *American Economic Review*.

(*) Auster, S. Gottardi, P. and R. Wolthoff (2025): Simultaneous Search and Adverse Selection, *The Review of Economic Studies*

- Baruch S. and L. Glosten (2019): Tail Expectation and Imperfect Competition in Limit Order Book Markets, *Journal of Economic Theory*, 183, 661-697.

2.2 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*.

(*) Abrardi, L., Colombo L., and P. Tedeschi (2025): Pretending ignorance is bliss: competing insurers with heterogeneous informational advantages, *The Review of Financial Studies*

2.3 Behavioral Approaches

(*) Erikan E, and M. Rabin (2005): Cursed Equilibrium, *Econometrica* 73 (5), 1623-1672.

2.4 Adverse Selection in General Equilibrium Approaches

(*) Bisin, A., and Gottardi, P. (2006). Efficient competitive equilibria with adverse selection, *Journal of Political Economy*, 114(3), 485-516.

(*) Azevedo, E. M., and Gottlieb, D. (2017): Perfect competition in markets with adverse selection *Econometrica*, 85(1), 67-105.

2.5 Market Interventions

(*) Tirole, J. (2011): Overcoming Adverse Selection: How Public Intervention Can Restore Market Functioning, *American Economic Review*, 102(1): 31-59.

(*) Skreta, V., and T. Philippon (2012): Optimal Interventions in Markets with Adverse Selection, *American Economic Review*, 102(1): 1-30.

(*) Fahri, E., Golosov, M. and A Tsyvinski (2009): A Theory of Liquidity and Regulation of Financial Intermediation, *Review of Economic Studies*, Vol. 76(3): 973-992.

(*) Stantcheva, S. (2014): Optimal Income Taxation with Adverse Selection in the Labour Market, *Review of Economic Studies* 81: 1296-1329

3 Moral Hazard Economies (Lectures 8-9)

(*) 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.

(*) Donaldson, J. R., Koont, N., Piacentino, G., and Vanasco, V. (2024): A new theory of credit lines (with evidence), available at <https://www.giorgiapiacentino.com/vari/Credit-Lines.pdf>

(*) Netzer N., and F. Scheuer (2010): Competitive markets without commitment, *Journal of Political Economy*, 118: 1079-1109.