Module title			Abbreviation
Contract Theory			12-M-CT-161-m01
Module coordinator		**Module offered by**	
Holder of the Chair of Contract Theory and Information Economics		Faculty of Business Management and Economics	
ECTS	**Method of grading**	**Only after succ. compl. of module(s)**	
5	numerical grade	--	
Duration	**Module level**	**Other prerequisites**	
1 semester	graduate	--	

Contents

During the 1960/70s, microeconomic theory came to acknowledge that many (if not most) economic transactions are characterized by asymmetric distribution of information – i.e., at least one of the parties participating in a transaction usually is privy to information that the remaining parties do not have access to. This asymmetric distribution of information subsequently was recognized to be a major impediment for transactions to be economically efficient. Contract theory addresses the question how the inefficiencies arising from asymmetric distribution of information can best be mitigated by appropriate design of the contractual (or, more generally, institutional) framework that governs the transaction under consideration. This lecture covers the baseline models of “moral hazard” (i.e., situations where one party has private knowledge after a contract has been signed) and “adverse selection” (i.e., situations where one party has private knowledge before a contract is signed). As applications we will address questions discussed in organizational, personnel or industrial economics, such as incentive design within organizations or the design of labor law regulations and competition laws.

Even though we will work with precise mathematical formalizations of the ideas that we want to think and talk about, this course requires little more than a solid understanding of basic differential calculus. More important than having a solid mathematical background is having a strong interest in formal economic analysis and fun with logical thinking and puzzle solving.

The exposition is primarily based on the following textbook:

- Laffont and Martimort (2002): "The Theory of Incentives"

Intended learning outcomes

After completing the course students will be able to
- explain essential findings of contract theory,
- apply the involved methods to given stylized examples on their own,
- interpret the properties of real-life contracts as the outcome of the interaction between two or more contracting parties in the presence of asymmetric information,
- evaluate government interventions with regard to their effect on the efficiency properties of the interaction between the contracting parties.

Courses (type, number of weekly contact hours, language — if other than German)

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Method of assessment (type, scope, language — if other than German, examination offered — if not every semester, information on whether module is creditable for bonus)

a) written examination (approx. 60 minutes) or b) term paper (approx. 15 pages)
Language of assessment: German and/or English

Allocation of places

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Additional information

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Workload

150 h

Teaching cycle
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Referred to in LPO I (examination regulations for teaching-degree programmes)
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Module appears in
Master's degree (1 major) Economathematics (2016) Master's degree (1 major) Business Management (2015) Master's degree (1 major) China Business and Economics (2016) Master's degree (1 major) International Economic Policy (2015) Master's degree (1 major) China Language and Economy (2016)