SI 680 - Contracting and Signaling, Winter 2008

MacKie-Mason, Jeffrey K.


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Course Schedule SI 680: ICD – Contracting and Signaling, Second Half Winter 2008

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SEE the course syllabus (CTools) for policies and procedures.

The following book is available at the campus bookstores: Ines Macho-Stadler and J. David Perez-Castrillo, *An Introduction to Economics of Information: Incentives and Contracts*, 2nd ed. (Oxford University Press, 2001)

Abbreviations:

MS-PC: Macho-Stadler and Perez-Castrillo
CT: CTools
UR: University Reserves (electronically available from “Library Reserves” tool in Ctools)
JSTOR: [http://www.jstor.org](http://www.jstor.org) (if you are off the campus network, use the UM library proxy server).

7 March, Week 1: Introduction to Contracting and Signaling

Objective: Why does it matter for a transaction or agreement that the two (or more) parties have different information? What are the fundamental issues for structuring transactions or designing agreements when there is asymmetric information?

Mandatory Read:

2. MS-PC ch. 1-2
3. JMM, “Brief introduction to constrained optimization” (CT)

Mandatory Case: When is information strategically critical?


14 March, Week 2: Hidden Action

Objective: What is a "hidden action" problem? What constraints does hidden action impose on agreements between self-interested individuals and organizations? What general design principles do we know for contracts in this situation?

Mandatory Read:

2. MS-PC ch. 3, pp. 37-46, 49-57

Supplementary Read:

2. MS-PC, ch. 3 (remainder)

Mandatory Case: Start-ups
21 March, Week 3: Hidden Action II: Principles for Incentive Design Objective: Most professional jobs involve elements of hidden action. What design principles are there for compensation schemes that ameliorate this problem?

Mandatory Read:
3. MS-PC ch. 3, pp. 66-68

Supplementary Read:

Mandatory Case: Billable hours

26 March: Assignment 1 Due, 12 noon

28 March, Week 4: Hidden Information I Objective: Sometimes one party to a transaction or agreement cannot directly observe, or at least not verify to a third party, quality or knowledge or other relevant information about the other party to the agreement. What implications does “hidden information” have for the terms and conditions of agreements (e.g., professional service or consulting contracts)? How should licensees structure licenses to obtain technology when they know less about the quality of the technology and how to use it than does the licensor?

Mandatory Read:
1. MS-PC pp. 103-116

Supplementary Read:
2. MS-PC pp. 157-60

Mandatory Case: Patent Licensing / Tech Transfer
1. MS-PC pp. 149-153
4 April, Week 5: Hidden Information II: Applications Objective: We will apply the analysis of hidden information problems to three useful applications: versioning information goods (e.g., student, home and professional versions of software); auction design; and software licensing.

Mandatory Read:
3. MS-PC pp. 168-172

Supplementary Read:

Mandatory Case: Research in Motion Inc.

11 April, Week 6: Signaling and Screening Objective: Sometimes a party to an agreement or transaction would like to make known his or her hidden information (e.g., if she very high quality), but there are no direct ways to verify that information. How might a high quality type signal her quality? How might an email recipient set up a screen that induces senders to reveal whether they are sending spam?

Mandatory Read:
1. MS-PC pp. 185-198, 209-210

Supplementary Read:

Mandatory Case: Manipulating Digg.com


18 April: Assignment 2 Due 12 noon