Contract Theory

Spring 2018: Monday 6:00 pm-9:00 pm

Instructor: Shenzhe Jiang

Office: Oversea Exchange Center, 417N
Email: shenzhejiang@nsd.pku.edu.cn
Office Hours: 9:50-11:50 am, Mondays
Grading: Based on a presentation of a related paper (25%) and three referee reports for assigned papers (75%).

The topics we cover are different types of basic dynamic contract. These environments involve asymmetric information, and we are mainly after two goals: one is to characterize the best allocation that are achievable (the so-called second best), the other is to find the right policies to implement the best allocation.

The main tools used in this literature are from game theory and mechanism design. Previous knowledge in dynamic programming and repeated game theory would be helpful. We will start with the recursive methods in solving dynamic contracts, then we will move on to study various extensions of the classical contracting problem, including limited commitment, hidden action and adverse selection. Lastly we focus on the application of modeling techniques we learned from contract theory on other macroeconomics issues.
Papers

1. **Recursive methods in solving dynamic contracts with limited commitment.**


2. **Hidden Action and Moral Hazard.**


   **Sannikov, Yuliy,** Games with Imperfectly Observable Actions in Continuous Time, Econometrica, (2007), 75, 1285-1329.

   **Sannikov, Yuliy,** A Continuous-Time Version of the Principal-Agent Problem, Review of Economic Studies, (2008), 75, 957-984


3. **Continuous-Time Approach in more Macroeconomics Issues.**


4. Adverse Selection and Mirrleesian Taxation.


5. Unemployment Insurance.

Robert Shimer and Ivan Werning, Liquidity and Insurance for the Unemployed, FRB Minneapolis Staff Report 366


6. Miscellaneous

Athey, Susan, Andrew Atkeson and Patrick Kehoe, The Optimal Degree of Discretion in Monetary Policy, Econometrica, (2005), September.

