# Graduate Microeconomics III Fall 2015

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**Time**: Wednesday 10:00 —12:00

Place: TBC.

Course Page: <a href="http://uv.ulb.ac.be/course/view.php?id=51598">http://uv.ulb.ac.be/course/view.php?id=51598</a> (you need a ULB email address to

access the site)

**Office Hours:** After class, or by appointment.

**Objectives:** The course will explore recent behavioral approaches to contracting.

**Prerequisites:** This course is primarily designed for graduate students who have already taken

Graduate Microeconomics I and have a working knowledge of game theory with

incomplete information (Graduate MIcroeconomics II is a plus).

**Grading Policy:** Students have to write a paper.

## Readings

Mandatory reading before the first lecture

Kőszegi, B. (2014). Behavioral Contract Theory. Journal of Economic Literature, 52(4), 1075–1118. <a href="http://doi.org/10.1257/jel.52.4.1075">http://doi.org/10.1257/jel.52.4.1075</a>.

## Lecture 1: Moral Hazard — Social preferences and intrinsic motivation

Akerlof, George A. 1982. "Labor Contracts as Partial Gift Exchange." *Quarterly Journal of Economics 97*(4): 543–69.

Bartling, Bjorn, and Ferdinand A. von Siemens 2010. "The Intensity of Incentives in Firms and Markets: Moral Hazard with Envious Agents." *Labour Economics* 17 (3): 598–607.

Dufwenberg, M., and G. Kirchsteiger (2000), "Reciprocity and Wage Undercutting," European Economic Review, Vol. 44(4-6), May 2000, 1069-1078

Englmaier, Florian, and Stephen Leider. 2012. "Contractual and Organizational Structure with Reciprocal Agents." *American Economic Journal: Microeconomics* 4 (2): 146–83.

Fehr, Ernst, and Klaus M. Schmidt. 1999. "A Theory of Fairness, Competition, and Cooperation." *Quarterly Journal of Economics* 114 (3): 817–68.

Fehr, Ernst, Gächter, Simon, and Kirchsteiger, Georg (1997), "Reciprocity as a Contract Enforcement Device - Experimental Evidence, "Econometrica 65, pp. 833-860.

#### Lecture 2: Moral Hazard — Intrinsic and extrinsic motivation

- Benabou, Roland J.M. and Tirole, Jean (2003), "Intrinsic and Extrinsic Motivation, " *Review of Economic Studies* 70, pp. 489-520.
- Benabou, Roland J.M. and Tirole, Jean (2006), "Incentives and Prosocial Behavior," *American Economic Review*, 96(5), 1652-1678.
- Falk, Armin and Michael Kosfeld 2006. "The Hidden Costs of Control." *The American Economic Review,* Vol. 96, No. 5, pp. 1611-1630.
- Frey, Bruno S. and Jegen, Reto (2001), "Motivation Crowding Theory," *Journal of Economic Surveys* 15, pp. 589-611.
- Gneezy, Uri and Rustichini, Aldo (2000), "Pay Enough or Don't Pay At All," *Quarterly Journal of Economics*, 115 (2), pp. 791-810.

#### Lecture 3: Incomplete contracts and authority

- Bolton, Patrick, and Antoine Faure Grimaud 2009. "Thinking Ahead: the Decision Problem." *Review of Economic Studies* 76 (4): 1205–38.
- Bolton, Patrick, and Antoine Faure Grimaud. 2010. "Satisficing Contracts." *Review of Economic Studies* 77 (3), 937–71.
- Bolton, Patrick and Mathias Dewatripont. 2011. "Authority in Organizations: a Survey." In Handbook of Organizational Economics, edited by Robert Gibbons and John Roberts.
- Gabaix, Xavier, and David Laibson. 2006. "Shrouded Attributes, Consumer Myopia, and Information Suppression in Competitive Markets." *The Quarterly Journal of Economics* 121 (2), 505–40.
- Hart, Oliver, and John Moore. 1999. "Foundations of Incomplete Contracts" 66 (1): 115–38.
- Hart, Oliver. 2001. "Norms and the Theory of the Firm." *University of Pennsylvania Law Review* 149 (6): 1701–15.
- Tirole, J. (2009), 'Cognition and Incomplete Contracts', *American Economic Review* 99(1), 265–294.

## Lecture 4: Renegotiation and reference points

- Aghion, Philippe, Mathias Dewatripont, and Patrick Rey. 1994. "Renegotiation Design with Unverifiable Information." *Econometrica* 62 (2), 257–82.
- Hart, Oliver, and John Moore. 2008. "Contracts as Reference Points." *Quarterly Journal of Economics* 123 (1). Oxford University Press: 1–48. doi:10.1162/qjec.2008.123.1.1.
- Hart, Oliver, and Maija Halone-Akatwijuka. 2015. "Short-Term, Long-Term, and Continuing Contracts." mimeo.
- Iyer, Rajkamal, and Antoinette Schoar. 2015. "The Importance of Holdup in Contracting: Evidence From a Field Experiment." mimeo, Harvard.
- Bartling, Björn, and Klaus Schmidt. 2013. "Reference Points, Social Norms, and Fairness in Contract Renegotiations." Kiel und Hamburg: ZBW Deutsche Zentralbibliothek für Wirtschaftswissenschaften, Leibniz-Informationszentrum Wirtschaft.