

Microeconomics II

Doctoral Program in Economics and Management, Univ. Padova, 2017

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OBJECTIVE. The course objective is to introduce the main issues about uncertainty, information economics and contracts. Through applied models we shall illustrate the notions of demand for insurance, adverse selection, moral hazard, and signaling.

TOPICS

Expected utility

1. Expected utility: lotteries, expected utility theorem (lecture notes file available)
2. Certainty equivalent (lecture notes file available)
3. Risk aversion coefficients (lecture notes file available)
4. Pratt theorem
5. Arrow-Pratt approximation (lecture notes file available)
6. Rabin Paradox (lecture notes file available)

The space of contingent goods and demand for insurance under full info, adverse selection and moral hazard

7. Demand for insurance (lecture notes file available)
8. Demand for insurance and adverse selection. The incentive compatibility constraint. Rothschild-Stiglitz, *Quarterly Journal of Economics*, 1976 and Tirole p.160. (lecture notes file available)
9. Introduction to the Revelation Principle, Mas Colell, Whinston, Green, *Microeconomic Theory*, Oxford University Press 1995.
10. Intertemporal demand for insurance. Diamond-Dybvig, *J. Political Economy* 1983. (lecture notes file available)
11. Demand for insurance under moral hazard; Laffont, *The Economics of Uncertainty and Information*, MIT Press 1989. (lecture notes file available)

Applications of adverse selection

12. Credit rationing with adverse selection. Stiglitz-Weiss, *American Economic Review*, 1981. (lecture notes file available)
13. Bester, H. "Screening vs Rationing in credit markets with imperfect information" *American Economic Review* 1985, 57:850-855. (lecture notes file available)

Models of incentives and moral hazard: the principal agent problem

14. Holmstrom, *Bell Journal of Economics*, 1979.
15. Milgrom-Roberts on incentives (lecture notes file available)
16. Applications of moral hazard to ownership structure: Tirole, *Corporate Governance*, *Econometrica*, 2001 november. (lecture notes file available)

Signalling applications to financial decisions

17. Leland-Pyle, *Journal of Finance*, 1977. (lecture notes file available)
18. Signaling through dividends. Bhattacharya, *Bell Journal of Economics and Management* 1977. (lecture notes file available)

Market microstructure

15. The impossibility of competitive efficient financial markets: the model by Grossman-Stiglitz *American Economic Review* 1980.
16. Basic bid-ask spread in adverse selection: Copeland-Galai, Information Effects in the Bid-Ask Spread *J. of Finance* 1983. (lecture notes file available)

Costly state verification

17. Townsend , R., *J. of Economic Theory* 1979. (lecture notes file available)
18. Williamson, S. , *Quarterly Journal of Economics*, vol 102, February, 1987. (lecture notes file available)

Methodology

19. Envelope theorem

COURSE EVALUATION: Final exam 75%; Homework 20%; Class participation 5%

OTHER USEFUL REFERENCE

Mas Colell, Whinston, Green, *Microeconomic Theory*, Oxford University Press 1995.