

EIEF

Advanced Corporate Finance: Micro IV: Information Economics

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Alexey Makarin, EIEF, alexey.makarin@eief.it

Course Overview: This course introduces the main concepts of information economics: asymmetric information, adverse selection, moral hazard, and discusses several economic models based on these concepts: signaling, screening, relational contracts, auctions, mechanism design, and information design. Applications of these concepts to corporate finance, contract theory, and insurance markets will be discussed.

Textbooks:

1. Mas-Colell, Andreu, Michael D. Whinston, and Jerry R. Green. Microeconomic Theory. Oxford University Press, 1995. ISBN: 9780195073409.
2. Krishna, Vijay. Auction Theory, Second Edition. Academic Press, 2010. ISBN: 9780123745071.
3. Bolton, Patrick, and Mathias Dewatripont. Contract Theory, 2005. ISBN: 9780262025768.
4. Tirole, Jean, The Theory of Corporate Finance. Princeton University Press, 2006. ISBN: 0691125562.
5. Milgrom, Paul. Putting Action Theory to Work. Cambridge University Press, 2004. 9780521536721.

Prerequisites: Knowledge of game theory.

Evaluation: The grade will be based on a written exam (85%) and on problem sets (15%).

Lectures:

| <i>Lecture</i> | <i>Date</i> | <i>Topic</i> | <i>Reading</i> |
|----------------|-------------|--|------------------------------|
| 1 | 12-04 | Introduction to Information Economics. | MWG 13 |
| 2 | 16-04 | Adverse Selection: Screening. | MWG 13 |
| 3 | 19-04 | Adverse Selection: Signaling. | MWG 14 |
| 4 | 23-04 | Moral Hazard. | MWG 14 |
| 5 | 26-04 | Dynamic Moral Hazard: Relational Contracts, Reputation | BD 10 |
| 6 | 30-04 | Auctions. | Krishna 1-2 |
| 7 | 03-05 | Auctions. Revenue Equivalence. | Krishna 3 |
| 8 | 07-05 | From Auctions to a General Mechanism Design Problem. | Krishna 5 |
| 9 | 10-05 | Mechanism Design. | MWG 23.A-B |
| 10 | 14-05 | Mechanism Design. Dominant Strategy Incentive Compatibility. | MWG 23.C |
| 11 | 17-05 | Mechanism Design. Bayesian Incentive Compatibility. | MWG 23.D |
| 12 | 21-05 | Information design. Bayesian persuasion. | Kamenica and Gentzkow (2011) |