

LIST OF KEY TOPICS COVERED IN THE FINAL EXAM:

(IMPORTANT: topics from the first part of the course are not included here, but they are essential pre-requisites for the topics listed below. See the review sheet for the mid-term for a list of those topics.)

- **Coordination Failures**

- Common pool resources and coordination failures (the tragedy of the commons).
- Model: the fishermen dilemma revisited.
- Possible solutions to the tragedy of the commons: community based solutions (symmetric and asymmetric); market-based solution (privatization); Government regulation (fiat power or taxation).
- (see the “wild asparagus dilemma” for another formal example)

- **Competition, rent-seeking and market equilibrium**

- The principle of profit-maximization (see lecture notes on Moodle)
- The supply curve of perfectly competitive firms (see lecture notes on Moodle)
- The demand curve and consumer surplus (see lecture notes on Moodle)
- The Cournot model (1 firm, 2 firms, many firms).
- Competition and social well-being (producers surplus, consumer surplus, overall social welfare, the deadweight loss associated with market power).

- **Information: contracts, norms and power**

- Incomplete contracts (what it is, why it occurs, examples).
- Strategic asymmetry, information asymmetry, repeated interactions.
- Principal-agent relations.
- Hidden attributes and adverse selection.
- Model: the ‘market for lemons’.

- Institutional solutions to adverse selection.
 - Hidden actions and moral hazard.
 - The Benetton Moodle (a contingent renewal contract for quality).
 - The Nash equilibrium of the contract for quality with complete contracts.
 - Characteristics of the contingent-renewal equilibrium with incomplete contracts
 - Power: definition; why incomplete contracts make power important.
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- **The labor market**
 - Why the labor contract is incomplete.
 - Re-interpreting the Benetton model as a model of the labor market.
 - The no-shirking model
 - Macroeconomic implications of the labor discipline model: the wage curve.