

Non-standard preferences and bounded rationality in models of asymmetric information

NES Research Project Proposal for 2014-2015

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It is difficult to overestimate the importance of the economics of information. By now, this is a large field with many handy models ("building blocks") and deep insights. The idea of this project is to introduce various kinds of non-standard preferences and limited rationality into otherwise standard models of asymmetric information. By "non-standard" preferences we mean preferences that do not come from the maximization of expected utility (for example, loss aversion, ambiguity aversion) and/or when the agent does not maximize his "selfish" utility (various forms of other-regarding preferences, concerns for status, altruism, public sector motivation, favouring certain groups, etc), etc. "Limited" or "bounded" rationality refers to situations when agents are not aware of all the details of the environment, have computational costs, have very particular beliefs about others (as in level-k models), etc.

These and other departures from the canonical model of individual have been widely documented by empirical and experimental research and they are gradually being incorporated into theoretical models, yet, more is to be done. Below some topics are singled out; their range reflects how important and versatile the economics of information has become.

While most papers in this project are expected to be theoretical, empirical papers are definitely possible.

1 "Pure contract theory"

The most straightforward and the most theoretical approach is to introduce a non-standard assumption into otherwise standard model.

See, for example, Prendergast and Topel (1996), Desiraju and Sappington (2007), Dur and Glazer (2008), Englmaier and Wambach (2010), Herweg, Müller and Weinschenk (2010) for non-standard preferences and Bolton and Faure-Grimaud (2010) and Von Thadden and Zhao (2012) for limited rationality.

2 Public sector and design of the bureaucracies

Bureaucrats are often found to be motivated to work in the public sector or to have their own agenda. What are the implications for the organizational design in the public sector?

See, for example, Francois (2007), Prendergast (2007) and Drugov (2013).

3 Implications for organizational design and labour market

An important topic in the organizational design of firms is the consequences of various forms of inter-personal comparisons (concerns for status, inequality aversion, etc). See, for example, Auriol and Renault (2008) and Bartling and von Siemens (2010).

Sorting in the labour market across different firms and sectors coupled with equilibrium contracts is another important topic, see Besley and Ghatak (2005), Macchiavello (2008), Kosfeld and von Siemens (2011) and Bénabou and Tirole (2013).

4 Self-Management

A very different recent area is the study of self-management issues. Why do people prefer to be overconfident about their abilities? How can a self-imposed rule, say, a diet, constrain future behaviour? An important ingredient of many models in this strain is

hyperbolic discounting. See Bénabou and Tirole (2002) and Bénabou and Tirole (2004) for early and well known papers.

Another related and famous paper is Bénabou and Tirole (2003).

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