

# **Microeconomics**

**4<sup>th</sup> module, 2022-2023**

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## **Course information**

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**Course Website:** <https://my.nes.ru>

**Instructor's Office Hours:** By appointment.

**Room Number:** TBA

**TAs:** TBA

## **Course description**

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This is the fourth course in the microeconomics sequence at MAE program. The goal of the course is to introduce the main concepts, ideas and tools of the asymmetric information literature. The focus of the module will be on adverse selection, moral hazard and their implications for incentives, economic behavior, and efficiency. We will also cover market responses to asymmetric information such as signaling and screening. We will draw illustrations from various fields, including industrial organization, political economy, and labor economics.

## **Course requirements, grading, and attendance policies**

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Successful completion of the Microeconomics modules 1, 2 and 3 is a prerequisite for this course. The grade will be a combination of the final exam (70%), four problem sets (10%) and a long essay (15%). Attendance and class participation is compulsory and will count for the remaining 5% of the grade. Students will be entitled for a make-up exam which will have a similar format to that of the final exam. The exam and the essay need to be written in English.

The final exam format will be closed-book, 2 hours and 30 minutes and questions are allowed.

## **Course outline**

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**Introduction to asymmetric information models** (Lecture 1)

**NEW ECONOMIC SCHOOL**  
**Master of Arts in Economics**

Main reference: Laffont and Martimort, Ch. 1  
Akerlof (1970), Quaterly Journal of Economics

**Signalling with hidden information** (Lectures 2, 3 and 4)

Main reference: Mas-Colell et. al. Ch 13.C and Appendix A  
Spence (1973), Quaterly Journal of Economics  
Crawford and Sobel (1982), Econonometrica

Other reference: Bolton and Dewatripont, Ch. 3 and Salanie Ch 4

**Screening in markets** (Lectures 5, 6 and 7)

Main reference: Mas-Colell et. al. Ch 13  
Rothschild and Stiglitz (1976), Quaterly Journal of Economics  
Other reference: Salanie Ch 3

**Principal-agent problem with hidden information** (Lectures 8, 9 and 10)

Main reference: Laffont and Martimort, Ch. 2 and (some parts of) 3.  
Other reference: Mas-Colell et. al. Ch 14

**Principal-agent problem with moral hazard** (Lectures 11, 12, 13 and 14)

Main reference: Laffont and Martimort, Ch. 4 and (some parts of) 5  
Bolton and Dewatripont, Ch 8.1 (moral hazard in teams) and 10.5 (career concerns)  
Holmstrom (1982), The Bell Journal of Economics  
Holmstrom (1999), Review of Economic Studies  
Other reference: Mas-Colell et. al. Ch 14

**Course materials**

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**Required textbooks and materials**

- [1] Bolton, P. and M. Dewatripont. "Contract Theory"
- [2] Laffont, J. and D. Martimort. "The Theory of Incentives. The Principal - Agent Model"
- [3] Mas-Colell, M. Whinston and J. Green. "Microeconomic Theory." Ch. 13, 14
- [4] Salanie, B. "The Economics of Contracts: A Primer."