**Economics of Information and Contracts**  
**ECON 432/532**  
**Koç University - Spring 2015**

**Instructor:** Levent Koçkesen, CASE 253, 338-1354, E-mail: lkockesen@ku.edu.tr  
**Office Hours:** TueThu 14:00-15:30  
**Day/Time:** TueThu 10:00-11:15  
**Location:** SOS 103  
**Description:** This course analyzes problems and issues created by informational asymmetries and how properly designed contracts could ameliorate those problems. Topics covered include adverse selection, screening, signaling, and moral hazard, as well as various applications to insurance, labor, and credit markets; corporate finance; and organizational design. The first part of the course will cover the basic models while the second part will focus on applications and empirical evidence.

**Textbook and Lecture Notes:** The course will be based on the lecture notes that will be posted on the course website:

http://home.ku.edu.tr/~lkockesen/teaching/contract/econ432.html

In addition, there are many recent advanced undergraduate/graduate level textbooks that you may find useful.


Salanié’s book is available in the University Bookstore.

**Prerequisites:** Economic theory of contracts analyzes optimal design of contracts and institutions in environments characterized by asymmetric information and conflict of interest. Therefore, its main mathematical tool is optimization under constraints. I will briefly review the methods of constrained optimization, but you need to have a basic background in calculus and probability. Most importantly, you should be comfortable with analytical reasoning and mathematical notation to be able to follow the lectures and the readings.

**Grading:** Grading will be based on two exams, a report, and class participation. Each student will write a short report on a paper or a topic. The paper/topic you choose could be theoretical or empirical. Although I will provide a list of papers to choose from, you may, after consulting me, choose one that is not in that list. Class participation will be measured by attendance as well as short quizzes and questions in class. These different components will have the following weights:

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<th>Component</th>
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**Attendance Policy:** Attendance is compulsory and any student who misses more than 50% of classes receives an automatic F.

**A Brief Outline and Main References:**

1. Introduction


2. Screening: Basic Models

3. Screening: Applications
• Regulation
• Financial Contracts and Credit Rationing

4. Signaling and Informed Principal Problem

5. Moral Hazard and Applications

6. Adverse Selection and Insurance Markets

7. Extensions and Other Applications
(a) Organizational Design and Allocation of Authority

(b) Corporate Finance


(c) Incomplete Contracts and Hold-Up Problem


8. Empirical Evidence