

Using calculus and elementary probability theory, we examine the ways in which markets and governments create incentives to elicit private information from individuals and firms, and how individual welfare is affected as a result.

**The final grade will be based on . . .**

1. Weekly problem sets that will be assigned by in class and submitted for grading by the end of the class period, exactly one week later. (20 points).
2. Three tests, written in class: 9/22, 10/13, 11/10. (20 points each)
3. Three-hour final examination at 2pm on Dec. 20. (20 points)

**Re tests:** *I will not change the test date for anyone who has a heavy schedule during the week of our test. I will reschedule a test for someone who is seriously ill, and anyone who is out of town on college business — model UN, or intercollegiate athletics, for instance.*

**Re problem sets:** *I will not accept your problem set if it is submitted on paper with jagged edges. I will receive about 800 problem sets this term. Therefore, I am not willing to negotiate deadline extensions, except for someone who is seriously ill, or out of town on college business — model UN, or intercollegiate athletics, for instance. But if you are going to be out of town on College business you are strongly encouraged to submit your problem set early.*

I will be happy to help you with the solutions to the problems when you run into difficulty. You can come to my office, or send me an e-mail message. I will be available in my office from 10am to 2pm the day before a problem set is due and the day before a test.

Use your lecture notes as a guide to what I consider important and hence *what* specifically you are likely to be tested on. Use the problem sets as a guide to *how* you will be tested.

The only text that you will have to purchase is the **second** edition of my book *Incentives*, published by Cambridge University Press. It is available at the bookstore and through the usual internet sources. ***The first edition will not do.***

The next page lists the topics that we will cover, along with the associated reading assignment.

## 1. INTRODUCTION

|                                      |  |
|--------------------------------------|--|
| <i>Asymmetric information</i> (p. 2) | pp. 1 – 9 plus Section 1 of Chpt 1                   |
| <i>Taxi!</i> (p. 16)                 | Section 2 of Chapter 1                               |
| <i>Picking a winner</i>              | available on line                                    |
| <i>Efficiency</i> (p. 23)            | Section 4 of Chpt. 1<br>and Section 5.1 of Chapter 2 |

## 2. EFFICIENCY AND SOCIAL COST PRICING

|   |                                      |
|---|--------------------------------------|
| <i>Introduction</i> (p. 326)            | Section 1 of Chapter 6               |
| <i>Uniform probability distribution</i> | Section 6.5 of Chapter 2 (pp. 121-2) |
| <i>The Vickrey Auction</i> (p. 334)     | Section 2 of Chapter 6               |

## 3. PUBLIC GOODS

|                                       |                        |
|---------------------------------------|------------------------|
| <i>The Economic Model</i> (p. 422)    | Section 1 of Chapter 8 |
| <i>The Pivotal Mechanism</i> (p. 440) | Section 2 of Chapter 8 |

## 4. INSURANCE

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|--|---------------------------------|
| <i>Decision making under uncertainty</i> | Section 6 of Chapter 2 (p. 112) |
| <i>Insurance</i> (p.124)                 | Section 7 of Chapter 2          |
| <i>Moral hazard and insurance</i>        | Section 9 of Chapter 3 (p. 179) |

## 5. MOTIVATING WORKERS AND MANAGERS

|                                      |           |
|--------------------------------------|-----------|
| <i>Corporate governance</i> (p. 197) | Chapter 4 |
|--------------------------------------|-----------|

## 6. BUNDLING AND PRODUCT QUALITY (p.280)

Section 5 of Chapter 5