Econ 403: Incentives   Prof. Campbell (Tyler 246)

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 me in class and submitted for grading by the end of the class period, exactly one week later. (*25 points*).
2.   Two tests, written in class. (Sept. 26 and Oct. 31. *25 points each*)
3.   Three-hour final examination at 9am on Dec. 12. (*25 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 noon on Mondays and Wednesdays. My teaching assistant Ellen Chinn will be available for one hour on Thursday evenings.

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 **third** edition of my book *Incentives,* published by Cambridge University Press. It is available at the bookstore and through the usual internet sources. **The first or second edition will not do.**

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

1. INTRODUCTION

     Asymmetric information   pp. 2 – 16 of Chpt 1
     Taxi! (p. 16)   Section 1.2 of Chapter 1 (pp. 16 -18)
     Picking a winner   Section 1.3 of Chapter 1 (pp. 18-22)
     Efficiency (p. 23)   Section 1.4 of Chpt. 1 (pp.23-29)
                                            and Sect 2.5.1 of Ch 2 (pp. 111-114)

2. EFFICIENCY AND SOCIAL COST PRICING

     Introduction (p. 367)   Sect 6.1 of Chapter 6 (pp. 358-367)
     Uniform probability distribution   Sect. 2.6.5 of Ch 2 (pp.120-121)
     The Vickrey Auction (p. 367)   Sect's 6.2.1, 6.2.2, and 6.2.3 of Ch 6

3. PUBLIC GOODS

     The Economic Model   Sect 8.1 of Chapter 8 (pp. 461-475)
     The Pivotal Mechanism   Sect 8.2 of Chapter 8 (pp. 478-489)

4. INSURANCE

     Decision making under uncertainty   Sect 2.6 of Chapter 2 (pp. 111-134)
     Insurance   Sect 2.7 of Chapter 2 (pp. 136-146)
     Moral hazard and insurance   Sect 3.11 of Ch 3 (pp. 202-217)

5. MOTIVATING WORKERS AND MANAGERS

     Corporate governance   Chapter 4 (pp. 219-283)

6. BUNDLING AND PRODUCT QUALITY   Sect 5.5 of Chapter 5 (pp.308-320)