

Course title: Theory of Contracts				
Course code: MPE 156		No. of credits: 4	L-T-P: 49-11-0	
Learning hours: 60				
Pre-requisite course code and title (if any):				
Department: Department of Policy and Management Studies				
Course coordinator: Prof. Badal Mukhopadhyay			Course instructor: Prof. Badal Mukhopadhyay	
Contact details: badal.mukhopadhyay@terisas.ac.in				
Course type: Elective			Course offered in: Semester 3	
Course description				
<p>The traditional theory of markets does not require buyers and sellers to know one another; indeed, such knowledge is explicitly ruled out. But almost every act of exchange and trade that we engage in works otherwise. Apart from petty purchases and daily grocery every act of exchange involves a contract.</p> <p>The drafting and implementation of contracts belongs to the study of law. In economics we are concerned with the knowledge and information (or lack of it) that visits these contracts. The asymmetric information ingrained in these situations is what makes them both more realistic and complex.</p>				
Course objectives				
<p>To introduce students to the research of roughly 30 years between 1980 and 2010 in asymmetric information wherein agents' types are not common knowledge. In a labour market the employer has to design a contract accepting which the employee reveals her type, and the employee tries to give a signal (degree, certificate, letter of recommendation, etc.) which convinces the employer of her value. This situation is ruled out by assumption in the classical world of perfect competition. The realism of this model is undeniable.</p>				
Course contents				
Module	Topic	L	T	P
1	General introduction—Adverse selection and Moral Hazard	4		
2	Product selection and quality in a monopoly	4	1	
3	Adverse selection and incentive compatibility	7	1	
4	Applications of adverse selection	10	3	
5	Moral hazard—Principal –Agent models	9	1	
6	Applications of moral hazard	10	3	
7	Contract design for bio-diversity procurement	5	2	
	Total	49	11	
Evaluation Criteria				
<p>There will be at least eleven tutorial sessions.</p> <p>2 minor tests : 30% each.</p> <p>Major test : 40%.</p>				
Learning outcomes				
<p>Theoretically, students will learn the major concepts like Nash equilibrium, incentive compatibility, revelation principle etc. and their applications in numerous acts of exchange from very small (buying sugar, one seeks out a reliable shop) to buying a house (one looks for a reputed construction company). The number of examples is legion. Tutorials will try to cover as many real life examples as possible.</p>				

References

1. J. Tirole, The theory of Industrial Organization (JT)
2. B. Salanie, The Economics of Contracts: A Primer, 2nd edition (2005)
3. P. Bolton & M. Dewatripont, Contract Theory
4. D. Kreps, A Course in Microeconomic Theory (1990)
5. E. Rasmusen, Games and Information: An Introduction to Game Theory

Pedagogical Approach: Classroom teaching and problem solving.

Additional information (if any):

Student responsibilities: Attendance, feedback, discipline: as per university rules.

Course reviewers

The course is reviewed and commented by the following experts.

1. Prof. Anjan Mukherji, Centre for Economic Studies and Planning, School of Social Sciences, Jawaharlal Nehru University, New Delhi.
2. Prof. Tridip Ray, Indian Statistical Institute, New Delhi.