

I use my Incentives book for two courses. The one below requires calculus. The sister course has the same theme but does not employ calculus and deals with a different set of topics. A student who wants to do both can take them in either order.

## Econ 403 (Spring, 2006)

## Incentives

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. (20 points).
2. A term test, written in class on February 17<sup>t</sup>. (25 points).
3. A second term test, written in class on March 29<sup>th</sup>. (25 points).
4. Final examination written at 8:30am on May 2<sup>nd</sup>. (30 points)

I will be available in my office between 10:00am and 3:00pm the day before a problem set is due, and the day before each of the two tests. You are also welcome to make an appointment for a different day. I can also provide help via email, of course.

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.**

Here is a list of the six topics that we will cover along with the associated reading assignment.

1. INTRODUCTION TO THE COURSE (Read pages 1 – 44)
  - Asymmetric information* (Section 1 of Chapter 1)
  - Taxi!* (Section 2 of Chapter 1)
  - Acid rain* (Section 3 of Chapter 1)
  - Efficiency* (Section 4 of Chapter 1)
  - Equilibrium* (Section 5 of Chapter 1)

2. EFFICIENCY AND SOCIAL COST PRICING (Read pages 325 – 333)
  - Introduction* (Section 1 of Chapter 6)
  - The Vickrey Auction* (Section 2 of Chapter 6)
3. EFFICIENCY AND PUBLIC GOODS (Read pages 102–111 and 420–453)
  - Quasi-linear preferences* (Section 5 of Chapter 2)
  - The Economic Model (Section 1 of Chapter 8)
  - The Pivotal Mechanism (Section 2 of Chapter 8)
4. INSURANCE (Read pages 112–135 and 179–195)
  - Decisions under uncertainty:* (Section 6 of Chapter 2)
  - Insurance:* (Section 7 of Chapter 2)
  - Moral hazard and insurance :* (Section 9 of Chapter 3)
5. MOTIVATING WORKERS AND MANAGERS (Read pages 196–255)
  - Corporate Governance* (all of Chapter 4)
6. BUNDLING AND PRODUCT QUALITY (Read pages 1280–289: Section 5 of Chapter 5)