

## Econ 403

## Incentives

Prof. Campbell: Phone 1-2383 / e-mail: decamp @ wm.edu / Office: Morton 127

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. (20 points).
2. A term test, written in class on February 16<sup>th</sup> (25 points).
3. A second term test, written in class on March 28<sup>th</sup> (25 points).
4. Final examination at 8:30am on May 9<sup>th</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 a partial manuscript for the second edition of my book *Incentives*, published by Cambridge University Press. It is available at the bookstore. If you purchased the text for Econ 420 you will still have to buy the text that is now on sale for Econ 403 because the two volumes contain completely different selections from my book. However, the Econ 420 manuscript that I used in the spring of 2005 is identical to the one that we are using this term, so you don't need to buy a new copy if you can get hold of the one from last year. On the back of this page you will find a list of the topics that we will cover, along with the relevant section of the text for each.

1. INTRODUCTION

<i>Asymmetric information</i> (p. 1)	pp. 1 – 12 plus Section 1 of Chpt 1.
<i>Taxi!</i> (p. 19)	Section 2 of Chapter 1
<i>Acid rain</i> (p. 21)	Section 3 of Chapter 1
<i>Efficiency</i> (p. 26)	Section 4 of Chpt. 1
<i>and</i> (p. 87)	Section 5.1 of Chapter 2

2. EFFICIENCY AND SOCIAL COST PRICING

<i>Auctions and efficiency</i>	distributed in class
<i>The Vickrey Auction</i> (p. 69)	Section 2 of Chapter 6

3. PUBLIC GOODS

<i>The Economic Model</i> (p. 95)	Section 1 of Chapter 8
<i>Pivotal Mechanism</i> (p. 116)	Section 2 of Chapter 8

4. INSURANCE

<i>Decision making</i> (p. 147)	Section 6 of Chapter 2
<i>Insurance</i> (p.160)	Section 7 of Chapter 2
<i>Moral hazard</i> (p. 276)	Section 9 of Chapter 3

5. MOTIVATING WORKERS AND MANAGERS

<i>Corporate governance</i> (p. 207)	Chapter 4
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6. BUNDLING AND QUALITY (p.171)	Section 5 of Chapter 5
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