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 September 28th. (25 points).
3. A second term test, written in class on November 2nd. (25 points).
4. Final examination written at 1:30pm on December 20. (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 will always be happy to advise you 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 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. MARKETABLE POLLUTION RIGHTS (Read pages 71 – 76, and 143 – 151)
   - Maximizing a quadratic (Section 1 of Chapter 2)
   - Marketable pollution rights (Section 2 of Chapter 3)

3. CREDIT MARKETS (Read pages 155 – 163)
   - The savings and loan crisis (Section 4 of Chapter 3)
4. INCENTIVE REGULATION  (Read pages 152 – 155)
   The telecommunications industry (Section 3 of Chapter 3)

5. REVELATION OF PREFERENCES  (Read pages 384 – 411)
   Voting schemes (Section 1 of Chapter 7)
   Preference revelation in general (Section 2 of Chapter 7)

6. AUCTIONS  (Read pages 326 – 341; 349 – 356; 358 – 361; 363 – 370; 374 – 383)
   Introduction (Section 1 of Chapter 6)
   The Vickrey auction (Section 2 of Chapter 6 but skip 2.3)
   Four basic auction mechanisms (Section 3 of Chapter 6 but skip 3.4)
   Revenue equivalence (Section 4 of Chapter 6 but skip 4.2 and 4.6)
   Applications (Section 5 of Chapter 6)
   Interdependent values (Section 6 of Chapter 6)

7. THE LABOR MARKET  (Read pages 165 – 171; 174 – 179; 290 – 303)
   Mandatory retirement (Section 6 of Chapter 3 but skip 6.3)
   Tenure of professors (Section 7 of Chapter 3)
   U.S. public schools (Section 8 of Chapter 3)
   Job market signaling (Section 6 of Chapter 5 but skip pooling equilibria)

8. MATCHING  (Read pages 469 – 494; 499 – 509)
   Advisors and advisees (Section 1 of Chapter 9)
   College admissions (Section 2 of Chapter 9)
   Allocating dormitory rooms (Section 4 of Chapter 9)