

**COURSE DATA****Data Subject**

Code	36131
Name	Microeconomics: markets and contracts
Cycle	Grade
ECTS Credits	6.0
Academic year	2023 - 2024

Study (s)

Degree	Center	Acad. year	Period
1316 - Degree in Economics	Faculty of Economics	4	First term

Subject-matter

Degree	Subject-matter	Character
1316 - Degree in Economics	18 - Pathway: economic analysis	Optional

Coordination

Name	Department
OLCINA VAUTEREN, GONZALO	10 - Economic Analysis

SUMMARY

This optional subject is part of the Microeconomics course that is taught as basic training in the subject Introduction to Economics I and as compulsory training in the subjects Microeconomics I and II and Game Theory and Strategic Behavior. All of them constitute an inexcusable background of the contents examined in Markets and Contracts.

This course analyzes the functioning of markets and economic organizations when there is private information from any of the parties with respect to variables relevant to the final result. For example, the quality of the product, the productivity of a productive factor, actions taken by an agent such as the effort, etc... This type of situation with asymmetric information is common in the most important markets of modern economies such as the credit or financial markets, insurance markets, labour markets and the markets for managers or executives.

In particular, special emphasis will be placed on the analysis of these problems in the labour, credit and finance markets. But we will also analyze the design of incentives through contracts in bilateral relations.



The main objective of this course is to facilitate the student first understanding of the problems for efficiency and equity generated by the existence of asymmetric information in the markets and in general in any economic relationship. Secondly, to know their solutions by both private agents and possible public interventions that can improve efficiency.

Therefore, this course constitutes a basic element for better understanding:

of the business activity in most of the productive sectors of the economy, of the functioning of the markets, fundamentally when, as is usually the case, the quality of the product is private information of the supplier.

PREVIOUS KNOWLEDGE

Relationship to other subjects of the same degree

There are no specified enrollment restrictions with other subjects of the curriculum.

Other requirements

The student must have taken Microeconomics I and II and Game Theory and Strategic Behavior.

OUTCOMES

1316 - Degree in Economics

- Show critical thinking skills.
- Show ethical commitment and social responsibility at work, respect the environment and human rights and promote equality between men and women and the culture of peace.
- Have decision-making skills and be able to apply knowledge to practice.
- Be able to work in a team (including interdisciplinary teams).
- Be able to learn autonomously.
- Be able to use English in a professional environment.
- Apply the principles of economic analysis (rational decision) to the diagnosis and resolution of problems.
- Understand and apply the scientific method, which involves formulating hypotheses, deducing verifiable results and contrasting them with empirical and experimental evidence.
- Understand the keys to the functioning of market economy, the difference between normative and positive reasoning and between the concepts of equity and efficiency.



- Understand the effects of different market structures on efficiency and equity and the influence of regulatory policies.
- Understand the effects of the existence of private information in relation to quality and productivity on the functioning and performance of markets and enterprises, as well as their possible private and public solutions.
- Recognise strategic conflicts and know how to use basic strategic principles to obtain cooperation and coordination in incentive problems.
- Know and understand the functioning of labour markets and the determinants of unemployment and wages.
- Know the causes of gender and race discrimination in labour markets and in economic and political organisations and the economic corrective measures.

LEARNING OUTCOMES

- Possess sufficient knowledge of microeconomics to analyze and interpret reality from an economic perspective.
- Understand the role of prices in the economy and how they are determined in different types of markets.
- Understand the role of markets and the strategic interactions that take place in them as a condition for the design of economic policies and institutions.
- Critically assess the importance of various economic problems and evaluate the social impact that policies designed to address them could have.
- Use analytical reasoning to pose and solve economic problems.
- Understand and analyze, both individually and as a group, relevant issues of current economic affairs.

DESCRIPTION OF CONTENTS

1. Introduction: complete and competitive markets.

- 1.1 Complete and competitive markets. Efficiency.
- 1.2 The effects of asymmetric information in the markets: agency costs and incomplete contracts.
- 1.3 The Principal and Agent relationship: contracts and optimal risk sharing.



2. Incentives and moral hazard

- 2.1 Hidden or non-contractible action: conflict between incentives and risk sharing.
- 2.2 The effects of limited liability. Fines and supervision.
- 2.3 Non-contractable result and renewable contracts: economic income and effective salary.
- 2.4 Extensions: multiple tasks, several main: common agency, competition between agents.

3. Private information and adverse selection.

- 3.1 The problem of adverse selection in competitive markets.
- 3.2 Signals in the markets. Applications to the labor market and financial markets.
- 3.3 The principal and agent relationship under asymmetric information: contracts and screening menus.
- 3.4 The effects on the efficiency and equity of private information in the markets. Policies and regulation.

4. Social norms and material incentives.

- 4.1 Social preferences and incentive theory.
- 4.2 Intrinsic and extrinsic motivation: the expulsion effect.
- 4.3 Teams and social preferences in competitive markets.

5. Auctions

- 5.1 Closed envelope auctions (first and second price).
- 5.2 Sequential ascending and descending auctions. Income equivalence theorem.
- 5.3 Common value auctions and the "winner's curse".

6. Incomplete contracts and specific investments.

- 6.1 The problem of post-contractual opportunism ("hold up").
- 6.2 Incomplete contracts and distribution of property rights.
- 6.3 Reputation and the "hold up": how to distribute authority in an economic relationship or organization.

7. Digital economy and platform markets.

- 7.1 Two-sided platforms: differences from the classic market.
- 7.2 Innovation, information, network externalities and returns to scale: "winner takes all" (natural monopoly). Regulation and competition.
- 7.3 Data and employment in the platform economy.

**WORKLOAD**

ACTIVITY	Hours	% To be attended
Theory classes	30,00	100
Classroom practices	30,00	100
Attendance at events and external activities	0,00	0
Development of group work	8,00	0
Study and independent work	50,00	0
Readings supplementary material	16,00	0
Preparation of practical classes and problem	16,00	0
TOTAL	150,00	

TEACHING METHODOLOGY

The development of the subject is articulated around three points:

Classroom classes, both theoretical and practical, where the teacher will explain the most interesting concepts and develop the most complexes for the use of the course. Attendance is essential because guarantees the correct transmission of knowledge and serves as a guide for students for your personal work. The emphasis will be on concepts and results. Thus The course itself will be dedicated to the realization of exercises and the study of different cases and applications that will be discussed in class.

The resolution of sets of exercises that will be delivered to the teacher throughout the course as a way to reinforce the understanding of key concepts of the subject.

The study and individual preparation of the lessons as well as the Attendance at scheduled academic seminars.

EVALUATION

The Markets and Contracts course will be evaluated based on the consideration, in this order of relevance, of the following aspects:

- Written exam at the end of the course, consisting of theoretical and practical questions.
- Evaluation of the activities developed by the student during the course, based on the elaboration of works, oral presentations and problem solving. These activities are not recoverable and the grade obtained will be maintained for the second call.
- Continuous evaluation of the student, based on his/her participation and involvement in the teaching-learning process. This activity is not recoverable and the grade obtained will be maintained for the second call.



REFERENCES

Basic

- Durante el curso se suministrarán a través del Aula Virtual, Apuntes y Notas del profesor para cada tema. Así como referencias a determinados artículos científicos.

Additional

- Mas-Colell, A., Whinston, M.D. y Green, J.R., Microeconomic Theory, Oxford University Press, 1995.

Macho, I. y Pérez Castrillo, D., Introducción a la Economía de la Información, Ariel, 2005.

Kreps D., Microeconomics for Managers, Princeton, 2019.

Bowles, S., Microeconomics. Behavior, Institutions and Evolution, Princeton, 2004.