Advanced Micro Module on Incentives, Information, and Organizations
Michaelmas Term 2020

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Course Outline: (This document, and all of the other course handouts, can be accessed via the Advanced Micro page on Canvas or directly at
http://www.nuffield.ox.ac.uk/teaching/Economics/Incentive/incentiveindex.htm.)

Topic 1: Explicit vs. implicit incentives

Topic 2: Performance comparisons and dynamic incentives

Topic 3: Communication with self-interested experts—verifiable disclosure

Topic 4: Communication with self-interested experts—cheap talk

Topic 5: Delegation of decision-making in organizations

Remainder of the course (the two sessions in Week 6): Student team presentations

Teams of students will present 6 papers chosen from the list below. Each presentation will last 30 minutes. The size of the teams will depend on the number of students enrolled. I would like to **finalize the assignment of teams to papers on Monday of Week 4.**

"Building an Equilibrium: Rules Versus Principles in Relational Contracts", Robert Gibbons, Manuel Grieder, Holger Herz, and Christian Zehnder, working paper, 2020, available at
http://web.mit.edu/rgibbons/www/GGHZ%20Building%20Equilibrium%20June%202020.pdf

"Data and Incentives", Annie Liang and Erik Madsen, working paper, April 2020, available at
https://arxiv.org/pdf/2006.06543.pdf

"Scoring Strategic Agents", Ian Ball, working paper, Jan. 2020, available at
https://sites.google.com/yale.edu/ianball/home under "Working Papers"

"Voluntary Disclosure and Personalized Pricing", S. Nageeb Ali, Greg Lewis and Shoshana Vasserman, working paper, Aug. 2020 available at http://personal.psu.edu/sma29/papers/ALV.pdf

"Subversive Conversations", Nemanja Antic, Archishman Chakraborty, and Rick Harbaugh, working paper, March 2020, available at
https://www.dropbox.com/s/0aycpcumehbqwsl/Subversive_Conversations_031420.pdf?dl=0

"Lying and Deception in Games", Joel Sobel, *Journal of Political Economy*, March 2020

"Authority in a Theory of the Firm", Inga Deimen and Dezso Szalay, CEPR Disc. Paper 15026, July 2020, available at https://cepr.org/active/publications/discussion_papers/dp.php?dpno=15026

"Rules and Commitment in Communication: An Experimental Analysis", Alessandro Lizzeri, Guillaume Frechette, and Jacopo Perego, working paper, June 2020, available at
http://www.jperego.com/files/papers/FLP/flp.pdf

INFORMATION ABOUT CLASSES:

There will be three 90-minute classes, held during the first half of Hilary Term; the days and times will be chosen to suit participants. In each class, we will work through two problems from past M. Phil. Advanced Economic Theory (2000-8) or Advanced Micro (2009-17) exams. I encourage all those attending the lectures, even those not taking the Advanced Micro exam, to come to the classes, as the problems provide good practice in setting up, analyzing, and interpreting models. (Exams from 2000 onwards are available online at www.oxam.ox.ac.uk.)

Class 1: 2009 Adv. Micro: Question 3; **2007 Adv. Econ. Theory:** Question 5 (You should assume throughout this question that efforts must be non-negative.)

Class 2: 2013 Adv. Micro 1(B): Question 2; **2008 Adv. Econ. Theory:** Question 6

Class 3: 2012 Adv. Micro: Question 7; **2006 Adv. Econ. Theory:** Question 10 (In part (ii) of this question, the second-to-last sentence should read: "Show that, if and only if $H \geq 3$, there exists a PBE in which the student truthfully reports s.")

READING LIST

Dynamic Models of Incentives (Topics 1 and 2)

Baker, Gibbons, and Murphy, "Subjective Performance Measures in Optimal Incentive Contracts", *Quarterly Journal of Economics*, 109, 1994, 1125-1156.

Holmstrom, "Managerial Incentive Problems: A Dynamic Perspective", *Review of Economic Studies*, 66(1), 1999, 169-82.

Meyer and Vickers, "Performance Comparisons and Dynamic Incentives", *Journal of Political Economy*, 105, 1997, 547-581.

Models of Communication with Self-Interested Experts (Topics 3 and 4)

Milgrom, "Good News and Bad News: Representation Theorems and Applications", *Bell Journal of Economics*, 12(2), Autumn 1981, 380-91.

Crawford and Sobel, "Strategic Information Transmission", *Econometrica*, 50(6), 1982, 1431-51.

Battaglini, "Multiple Referrals and Multidimensional Cheap Talk", *Econometrica*, 70(4), 2002, 1379-1401.

Models of Delegation of Decision-Making (Topic 5)

Alonso, Dessein, and Matouschek, "When Does Coordination Require Centralization?", *American Economic Review*, 98(1), 2008, 145-179.

Melumad, Mookherjee, and Reichelstein, "A Theory of Responsibility Centers", *Journal of Accounting and Economics*, 15, 1992, 445-484.