

# Contract Theory

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This is an introductory course to contract theory. The main focus will be on labor contract, but other important areas of contract theory, especially contract damages and holdup problem, will also be covered. Every topic covered will be explored in depth, including detailed discussion of model and important proofs. Participants are expected to build up a strong background for the theory of contract.

**Course website:** <http://idv.sinica.edu.tw/kongpin/teaching/contract.html>

**Requirement:** (i) Two examinations. (ii) Homeworks, which consist of questions regarding each paper, to be handed in before each class.

**Gradings:** Based on homework (20%), midterm (40%) and final (40%) examinations.

## Contents

### 1. Basic Model

Holmstrom B. (1979), "Moral Hazard and Observability," *Bell Journal of Economics*, 10, 74-91.

—(1982), "Moral Hazard in Teams," *Bell Journal of Economics*, 13, 324-340.

Grossman, S. and O.Hart(1983), "An Analysis of the Principal-Agent Problem," *Econometrica*, 51, 7-45

### 2. Multi-Agent Model

Green, J. and N. Stokey (1983), "A Comparison of Tournaments and Contracts," *Journal of Political Economy*, 91, 349-364.

Chen, K.-P. (2003), "Sabotages in Promotion Tournaments," *Journal of Law*,

*Economics and Organization*, 19, 119-40.

Mookherjee, D. (1984), "Optimal Incentives Schemes with Many Agents," *Review of Economic Studies*, 51, 433-46.\*

### 3. Relationship Contracts

Bull, C. (1987), "The Existence of Self-Enforcing Implicit Contracts," *Quarterly Journal of Economics*, 102, 147-59.

MacLeod, B. (2003), "Optimal Contracting with Subjective Evaluation," *American Economic Review*, 93, 216-240.

Levin, J. (2003), "Relational Incentive Contracts," *American Economic Review*, 93, 835-857.

### 4. Holdup Problem and Property Rights Assignment

Bolton P. and M. Dewatripont (2005), *Contract Theory*, 573-591

Grossman, S. and O. Hart (1986), "The Costs and Benefits of Ownership: A Theory of Vertical and Lateral Integration," *Journal of Political Economy*, 94, 691-719.

Chung, T.-Y. (1991), "Incomplete Contract, Specific Investments, and Risk Sharing," *Review of Economic Studies*, 58, 1034-42.

### 5. Contract Breach and Remedies

Polinsky M. (2003), *An Introduction to Law and Economics*, 3rd ed, Chapters 5 and 8.

Shavell, S. (2004), *Foundation of Economic Analysis of Law*, Chapter 13.

Cooter, R. and T.Ulen (2008) *Law and Economics*, 5th ed, Chapters 6 and 7.

\* Papers with asterisks are optional.