

Boston College
Department of Economics

Game Theory and
Economics of Information

(Subject to Revision)

Econ 741
Spring
1997

Chongen Bai
Carney 148
X3690

Text books:

Required:

Gibbons, R, *Game Theory for Applied Economists*, Princeton University Press, 1992.

Mas-Colell, A., M. Whinston and J. Green, *Microeconomic Theory*, Oxford University Press.

Varian, H. R., *Microeconomic Analysis*, W. W. Norton.

Savage, L., *The Foundations of Statistics*, Dover Publications, New York.

There will be a midterm exam on materials in part 1, which accounts for 50% of the course grade. Class participation will be considered for borderline cases. Problem sets will be handed out periodically. Although they will not be graded, students are strongly advised to work through them.

Office Hours: Tue. 1:00 - 4:00, or by appointment.

Part I. Game Theory

1. Static Games of Complete Information

Readings:

Gibbons: Chapter 1

F&T: Chapters 1 and 2

Concepts:

Normal Form Representation, Pure Strategy, Strict Dominance, Iterated
Strict Dominance, Nash Equilibrium, Mixed Strategy

Applications:

Second Price Auction, Cournot Equilibrium, Tragedy of the Commons

2. Dynamic Games of Complete Information

Readings:

Gibbons: Chapter 2

F&T: Chapters 3, 4 and 5

Concepts:

Extensive Form Representation, Backward Induction, Subgame Perfect Equilibrium, Time Consistency, Two-Stage Games, Repeated Games, The Folk Theorem

Applications:

Stackelberg Equilibrium, Entry Deterrence, Monetary Policy, Strategic Investment, Tariffs and Imperfect Competition, Collusion Between Cournot Duopolists, Efficiency Wages, Tournaments, Rubenstein's Bargaining Game.

3. Static Games of Incomplete Information

Readings:

Gibbons: Chapter 3

F&T: Chapter 6

Concepts:

Bayes' Theorem, Bayesian Nash Equilibrium, The Revelation Principle

Application:

Asymmetric Information Duopoly, Provision of a Public Good, Auctions

4. Dynamic Games of Incomplete Information

Readings:

Gibbons: Chapter 4

F&T: Chapters 8, 9 and 10

Concepts:

Perfect Bayesian Equilibrium, Signaling Games, Pooling and Separation Equilibrium, Equilibrium Refinements, The Intuitive Criteria

Applications:

Limit Pricing, Job Market Signaling, Reputation in Finitely Repeated Games, Sequential Bargaining under Asymmetric Information

Part II. Economics of Information

0. Introduction

1. Adverse Selection

(1). Markets with Adverse Selection

Akerlof, G., 1970 "The Market for Lemons: Qualitative Uncertainty and the Market Mechanism," *Quarterly Journal of Economics*, 84, pp 488-500.

(2). Signaling

Spence, A.M., 1973 "Job Market Signaling," *Quarterly Journal of Economics*, 87, pp 355-376.

(3). Screening

a. Monopsony Screening

Cooper, R., 1984 "On Allocative Distortions in Problems of Self-Selection," *Rand Journal of Economics*, Winter, pp 568-578.

b. Competitive Screening

Rothchild, M. and Stiglitz, J., 1976 "Equilibrium in Competitive Insurance Markets: An Essay on the Economics of Imperfect Information," *Quarterly Journal of Economics*, 90, pp 629-650.

2. Moral Hazard

Holmstrom, B., 1979 "Moral Hazard and Observability," *Bell Journal of Economics*, Autumn, pp 79-91.

Grossman, S.J. and Hart, O., 1983 "An Analysis of the Principal-Agent Problem," *Econometrica*, Vol. 51, No. 1, pp 7-45.

(1). Discrete Actions

(2). Continuous Actions

3. Mechanism Design

F&T: Chapter 7.