

Contract Theory

Kong-Pin Chen

kongpin@gate.sinica.edu.tw

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The purpose of the course is go over the core literature on labor contracts. Other important topics in contract theory which are not directly related to labor relation — for example property right, incomplet contracts, and hold-up problem — will not be covered. Every paper covered will be explored in depth, including model and details of proof. Participants are expected to build up a strong background for labor contract theory.

Course webpage:

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

Requirement: Before we go over a paper in class, participants are required to write a short report summarizing the motivation and main results of that paper (maximum two pages).

Gradings: Based on reports (50%) and a final examination (50%).

Contents

1. *Basic Model*

Holmström 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.

2. *Multi-Agent Model*

Lazear, E. and S. Rosen (1981), “Rank-Order Tournaments as Optimal Labor Contracts,” *Journal of Political Economy*, 89, 841-864.

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

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

3. Multi-Task Model

Itoh, H. (1991), "Incentives to Help in Multi-Agent Situations," *Econometrica*, 59, 611-636.

Holmström B. and P. Milgrom (1991) "Multitask Principal-Agent Analyses: Incentive Contracts, Asset Ownership, and Job Design," *Journal of Law, Economics, and Organization*, 7, 24-52.*

Chen, K.-P. (2003), "Sabotage in Promotion Tournaments," *Journal of Law, Economics and Organization*, 19, 119-140.

Lazear, E. (1989), "Pay Equity and Industrial Politics," *Journal of Political Economy*, 97, 561-580.

4. Relationship Contracts

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

MacLeod, B. and J. Malcolmson (1989), "Implicit Contracts, Incentive Compatibility, and Involuntary Unemployment," *Econometrica*, 57, 447-480.*

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

5. Subjective Evaluation

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

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

Fuchs, W. (2007), "Contracting with Repeated Moral Hazard and Private Evaluations," *American Economic Review*, 97, 1432-1448.*

* Papers with asterisks are optional.