

Advanced Corporate Finance (Micro IV) – RoME

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Syllabus

Part 1: Modeling and Decision Problems

- The representation of Information
 - Partition, Signals and Beliefs
 - Learning
- Information in a decision problem
 - Uncertainty and the value of information
 - The Blackwell Theorem

Part 2: Information in Games

- Hidden Information, Adverse Selection
 - Two types
 - Continuous types (regular case)
 - Applications
- Hidden Action, Moral Hazard
 - First Order Approach
 - Asymptotic First Best with arbitrary punishment (Mirrlees)
 - Holmstrom '79 Sufficiency principle

Part 3: Mechanism Design

- Language and Formalism
- Auctions
- The limits to efficient bilateral trade: Myerson and Satterthwaite

References

All material you will be responsible for is contained in the lecture notes I will distribute. They are based on the following books and papers, which you are encouraged to read for a more comprehensive understanding of the material

- Information in Decision Problems: D.A Blackwell and M.A. Girshick, *Theory of games and statistical decisions*. Courier Corporation, 1979.
- Lars Stole “*Lectures on the Theory of Contracts and Organizations*”
 - Adverse Selection: pp. 5-41
 - Moral Hazard: pp. 55-85
- Andreu Mas-Colell, Michael Whinston & Jerry Green: *Microeconomic Theory*.
 - Adverse Selection: 12.B, 13.A, 14.C
 - Moral Hazard: 14. A-C
- Jean-Jacques Laffont and David Martimort: *The Theory of Incentives (LM)*.
 - Adverse Selection: 2-3
 - Moral Hazard: 4
- Tilman Borgers, *An Introduction to the Theory of Mechanism Design*

Evaluation

You will be graded based on

- Final Exam (70% of grade)
- Participation / Problem Sets