Economics of Incentives for Policy and Politics

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1 Short Bio

I am a Business Engineer fro the University of Chile, and I hold a PhD in Economics from Nova School of Business and Economics. Currently, I serve as Assistant Professor of Economics (Adjunct) at the Lisbon Accounting & Business School and also at Nova School of Business and Economics, where I teach Microeconomics (BSc), Econometrics (BSc), and Mathematics (MSc and PhD). I am a member of the CEFAGE Research Center.

My research focuses mostly on applied economics. Previously I worked on corporate finance and applied microeconomic theory, mainly on auctions, contract theory, and matching. I have published my research in peer reviewed journals like Computational Economics and Managerial and Decision Economics.

2 Course Objectives

The course has as it main goal to help students understand how incentives shape behavior in organizations of different kinds, and confront them with several situations where the economic theory provides a useful framework to implement solutions to these issues.

By the end of the course, it is expected that students will be able to apply basic game-theoretic and contract-theoretic models to analyze strategic situations, and furthermore, to recognize incentive problems in organizations and public policy settings.

3 Contents

- 1. Introduction to Incentives
 - What are incentives?
 - Incentives in firms, markets, and politics
 - Motivation and overview of the course
- 2. An Introduction to Strategic Thinking (Optional, depends on students background)
 - Introduction to game theory
 - Dominant strategies, Nash equilibrium
 - Simple examples from business and politics
- 3. Incentives within Firms
 - Moral hazard and agency problems
 - Monitoring and performance-based pay
 - First and Second Best
 - Risk sharing

- 4. Hidden Information and Screening
 - Adverse selection and signaling
 - Incentives in hiring, insurance, and finance
- 5. Mechanism Design I
 - What is a mechanism?
 - Allocating resources under private information
 - Incentive compatibility and truthful revelation
 - Voting mechanisms
- 6. Mechanism Design II: Auctions
 - Classical Auctions
 - The bidding problem
 - The seller's problem
 - The Winner's Curse
- 7. Incentives in Monetary Policy
 - Incentives and Dynamic Inconsistency in Monetary Policy.
 - Application of the Barro Gordon model.
- 8. Incentives in Politics and Fiscal Policy
 - Political agency problems.
 - The Dynamic Common Pool and Public Debt.
 - Dynamic Inconsistency in Fiscal Policy.

The contents of the course will vary dyamically in case there is need to reinforce the backgrounds of the students.

4 Assessment

Students shall complete an individual problem set (30%), fill in two Quizzes (10% each), and complete an individual exam (50%).

5 Bibliography

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