

**COURSE DATA****DATA SUBJECT**

Code: 36131
Name: Microeconomics: markets and contracts
Cycle: Undergraduate Studies
ECTS Credits: 6
Academic year: 2025-26

STUDY (S)

Degree	Center	Acad. year	Period
1316 - Degree in Economics	Facultat d'Economia	4	First quarter

SUBJECT-MATTER

Degree	Subject-matter	Character
1316 - Degree in Economics	Pathway: economic analysis	ELECTIVES

COORDINATION

CALABUIG ALCANTARA VICENTE

SUMMARY

This elective course is part of the subject **Microeconomics**, which is taught as basic training in the subject Introduction to Economics I and as compulsory training in the subjects Microeconomics I and II and Game Theory and Strategic Behavior. All of them constitute an inexcusable antecedent of the contents examined in **Markets and Contracts**.

In this subject, the functioning of markets and economic organizations is analyzed when there is private information of any of the parties with respect to variables relevant to the final result. For example, the quality of the product, the productivity of a productive factor, the actions taken by an agent such as, for example, effort, etc... This type of situation with asymmetric information is common in the most important markets of modern economies such as labor markets, credit or financial markets, insurance markets and managerial or executive markets.

The main objective of this course is to provide students with an understanding of the problems for efficiency and equity generated by the existence of asymmetric information in markets and in general in any economic relationship. Secondly, to know their solutions both by private agents and possible public interventions that can improve efficiency.

In particular, special emphasis will be placed on the realization of these problems in the labor, credit and product markets. But we will also analyze the design of incentives through contracts in bilateral relations.



In view of the above, this subject constitutes a basic element for a better understanding:

- The course is a basic element for a better understanding of the business activity in most of the productive sectors of the economy,
- of the functioning of markets, especially when, as is very common, the quality of the product is private information of the supplier.

PREVIOUS KNOWLEDGE

RELATIONSHIP TO OTHER SUBJECTS OF THE SAME DEGREE

There are no specified enrollment restrictions with other subjects of the curriculum.

OTHER REQUIREMENTS

The student must have taken Microeconomics I and II and Game Theory and Strategic Behavior.

COMPETENCES / LEARNING OUTCOMES

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Apply the principles of economic analysis (rational decision) to the diagnosis and resolution of problems.

Be able to learn autonomously.

Be able to use English in a professional environment.

Be able to work in a team (including interdisciplinary teams).

Have decision-making skills and be able to apply knowledge to practice.

Know and understand the functioning of labour markets and the determinants of unemployment and wages.

Know the causes of gender and race discrimination in labour markets and in economic and political organisations and the economic corrective measures.

Recognise strategic conflicts and know how to use basic strategic principles to obtain cooperation and coordination in incentive problems.

Show critical thinking skills.

Show ethical commitment and social responsibility at work, respect the environment and human rights and promote equality between men and women and the culture of peace.

Understand and apply the scientific method, which involves formulating hypotheses, deducing verifiable results and contrasting them with empirical and experimental evidence.



Understand the effects of different market structures on efficiency and equity and the influence of regulatory policies.

Understand the effects of the existence of private information in relation to quality and productivity on the functioning and performance of markets and enterprises, as well as their possible private and public solutions.

Understand the keys to the functioning of market economy, the difference between normative and positive reasoning and between the concepts of equity and efficiency.

DESCRIPTION OF CONTENTS

1. Introduction

1.1 Complete and competitive markets: efficiency.

1.2 The effects of asymmetric information in markets: agency costs and incomplete contracts.

1.3 Hidden action (moral hazard problem) and hidden information (adverse selection problem).

1.4 The Principal and Agent relationship: contracts and optimal risk sharing.

2. Incentives and moral hazard

2.1 Hidden or non-contractable action: conflict between incentives and risk sharing.

2.2 The effects of limited liability. Fines and supervision.

2.3 Non-contractable outcome and renewable contracts: economic rents and efficiency wage.

2.4 Extensions: multiple tasks, several principals: common agency, competition between agents.

2.5 Effects of moral hazard on competitive labor and credit markets: unemployment and demand rationing. How to reduce moral hazard.

3. Private information and adverse selection.



- 3.1 The problem of adverse selection in competitive markets.
- 3.2 Signals in markets. Applications to labor and financial markets.
- 3.3 The principal-agent relationship under asymmetric information: contract menus and screening.
- 3.4 The efficiency and fairness effects of private information in markets. Policies and regulation.

- 4. Social norms and material incentives.**
 - 4.1 Social preferences and incentive theory.
 - 4.2 Intrinsic and extrinsic motivation: the crowding out effect.
 - 4.3 Teams and social preferences in competitive markets.

- 5. Incomplete contracts and specific investments.**
 - 5.1 The problem of post-contractual opportunism ("hold up").
 - 5.2 Incomplete contracts and distribution of property rights.
 - 5.3 Reputation and hold up: how to distribute authority in an economic relationship or organization.

- 6. Auctions**
 - 6.1 Sealed bid auctions (first and second price).
 - 6.2 Sequential ascending and descending auctions. Revenue equivalence theorem.
 - 6.3 Common value auctions and the "winner's curse".

WORKLOAD



PRESENCIAL ACTIVITIES

Activity	Hours
Theory	30,00
Classroom practices	30,00
Total hours	60,00

NON PRESENCIAL ACTIVITIES

Activity	Hours
Attendance at other activities	0,00
Individual or group project	8,00
Independent study and work	66,00
Preparation of lessons	16,00
Preparation for assessment activities	0,00
Resolution of case studies	0,00
Total hours	90,00

TEACHING METHODOLOGY

The development of the course is articulated around three points:

The face-to-face classes both theoretical and practical where the professor will explain the most interesting concepts and will develop the most complex instruments for the course exploitation. Attendance is essential because it guarantees the correct transmission of knowledge and serves as a guide to students for their personal work. Emphasis will be placed on concepts and results. Likewise, a large part of the course will be dedicated to the realization of exercises and the study of different cases and applications that will be discussed in class.

The resolution of sets of exercises throughout the course as a way to reinforce the understanding of the key concepts of the subject.

Individual study and preparation of the lessons as well as attendance to the academic seminars that will be scheduled.

EVALUATION

The course Microeconomics: Markets and Contracts will be evaluated based on the consideration of the following aspects:

A written exam that corresponds to 60% of the final grade.

30% of the grade will correspond to the completion of three tests based on three collections of problems, cases and exercises (Practices I, II and III).

The remaining 10% will be assigned on the basis of class attendance, active participation in the classroom and other activities, and a group work of reading commentary.

The grade obtained in the second and third aspects previously mentioned will only be computed if the student obtains a minimum of 2 points out of the 5 points of the written exam.



In case of not doing the continuous evaluation tasks, the student will only be able to obtain the points of the final exam (5 maximum), and would need to obtain a 3.5 out of 5 in this exam to pass the course.

REFERENCES

Basics

- During the course will be provided through the Virtual Classroom, Notes and Professor's Notes for each topic. As well as references to certain scientific articles.

Complementary

- Mas-Colell, A., Whinston, M.D. and Green, J.R., Microeconomic Theory, Oxford University Press, 1995.
- Macho, I. and Pérez Castrillo, D., Introducción a la Economía de la Información, Ariel, 2005.
- Kreps D., Microeconomics for Managers, Princeton, 2019.
- Bowles, S., Microeconomics. Behavior, Institutions and Evolution, Princeton, 2004.