

Incentives

Module		Incentives					
Module Code		ECO60140					
Module Coordinator		Feess, Eberhard					
Last Update		2015/11/26					
Target Group		Programme(s)			Bachelor of Science		
		Term			6. Semester		
		Compulsory/Elective Module			Elective Module		
		Module Duration			1 Semester		
		Credits:			6		
		Frequency			Annually		
		Language of instruction			English		
Workload:	150 h	Contact hours:	44 h	Independent Learning:	46 h	Assignments:	60 h
Prerequisites		Basic knowledge in microeconomics, game theory and statistics					
Usability in other Modules/Programmes		-					

Intended Learning Outcomes	<p>Knowledge: On completion of this module, the students are familiarized with fundamental theories on incentives, i. e. they can</p> <ul style="list-style-type: none"> • describe approaches of game theory, principal-agent-theory, industrial organization, theories of privatization and regulation • explain the relation between asymmetric information and incentives • comprehend behavioural decision making and interpret approaches and results of experimental research • identify stable patterns on behaviour in strategic decision making <p>Skills: On successful completion of this module, students will have the proven ability to apply the theories mentioned above to real-world situations, i. e. they are able to</p> <ul style="list-style-type: none"> • judge current developments in incentive setting and deregulation. • apply microeconomic reasoning to macroeconomic issues such as the reform of social security systems. • use empirical tools and statistical concepts for handling the problems of self-selection and endogeneity. • evaluate information on successful and unsuccessful privatization of state enterprises. <p>Competence: On successful completion of this module, the students are capable to design incentive structures for personnel economics, for consulting firms, for international organizations and for competition agencies, i. e they are able to</p> <ul style="list-style-type: none"> • combine game theory, behavioural insights and statistical tools and thus dealing fast and efficiently with new and challenging problems • as well as guide decision-making processes in groups
Module Structure	The module consists of lectures including case studies, discussions, and student presentation (group work).

Module Overview	<p>Setting the "right" incentives can be seen as one of the core objectives of both Economics and Management. In recent years, the perspectives of Economics and Management on incentive problems have become more and more interlocked, thereby considerably benefitting both disciplines. On the one hand, Economic theory provides useful tools such as principal-agent theory, game theory, contract theory and auction theory which allow to capture and to discuss incentive topics in a radical way. On the other hand, Management theory sharpens our understanding of the actual consequences of incentives with its strong emphasis on experience and behavioural foundations, and experimental economics completes the picture by providing us with stable behavioural patterns in controlled environments.</p> <p>The module combines these perspectives with a clear focus on real-world phenomena. It gives an overview on economic tools (game theory, principal-agent theory, asymmetric information) and behavioural and experimental insights (prospect theory, reciprocity, crowding-in or crowding-out of intrinsic motivation) required for applying incentive theory in practice. Topics discussed are both from Economics and Management and include (in Management) Hierarchies, Delegation, the Allocation of Decision rights and Incentives in teams as well as (in Economics) Competition Policy and Privatization. The module strongly focuses on the content and the conclusions rather than on the mathematical structure of the models.</p> <p>Outline:</p> <ol style="list-style-type: none"> 1. Game theory (refreshment and extension) 2. Industrial Organization and Competition Policy: Fields, insights and Procedure of Competition Policy in Practice 3. Incentives: Moral hazard, adverse selection and the design of second best contracts 4. Privatization and Deregulation: Insights and Challenges 5. Applying Microeconomics to Macroeconomics: The example of social security systems 6. Some remarks on empirical analysis 7. Experimental economics: Basic insights <p>Student presentations on the application of topics covered in 1-7.</p>
Forms of teaching, methods and support	The in-class time is divided in 60% lectures (including discussions, of course) and 40% group presentations by students. Self-study includes the preparation of the presentations and the reading of articles provided by the lecturer.

Type of Assessment in the Module and Performance Points	<table border="1" data-bbox="480 322 1378 613"> <thead> <tr> <th>Type of examination</th> <th>Duration or length</th> <th>Performance points</th> <th>Due date or date of exam</th> </tr> </thead> <tbody> <tr> <td>Written exam</td> <td>60 minutes</td> <td>60</td> <td>End of semester</td> </tr> <tr> <td>Presentation of group work</td> <td>10-15 slides</td> <td>40</td> <td>During semester</td> </tr> <tr> <td>Classroom discussion</td> <td></td> <td>20</td> <td>During semester</td> </tr> </tbody> </table> <p data-bbox="480 860 1401 958"> <u>Examination requirements:</u> For the written exam, students can bring what ever they want except electronic devices (no computer, no cell phones, no pocket calculator). </p>	Type of examination	Duration or length	Performance points	Due date or date of exam	Written exam	60 minutes	60	End of semester	Presentation of group work	10-15 slides	40	During semester	Classroom discussion		20	During semester
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Recommended Literature	<p data-bbox="480 987 1241 1016"> Recommendable textbooks on the different topics include: </p> <ul data-bbox="520 1028 1437 1435" style="list-style-type: none"> • Biermann, H. Scott and Luis Fernandez (1998): “Game Theory with Applications”, Second Edition, Addison Wesley Publication. • Gardner, Roy (2003): “Games for Business and Economics” • Rasmusen, Eric (2007): “Games & Information. An Introduction to Game Theory”. Fourth Edition, John Wiley & Sons. • Mas-Colell, Andreu, Whinston, D. Michael and Jerry Green (1995): “Microeconomic Theory”, Oxford University Press. • Motta Massimo (2004): Competition Policy: Theory and Practice, Cambridge University Press. • Feess, Eberhard (2004): Mikroökonomie. Eine spieltheoretisch und anwendungsorientierte Einführung, Marburg. <p data-bbox="480 1447 1422 1576"> In the first session, a reading list with articles both for the lectures and for the potential student presentations will be provided. This list is only a recommendation; students do not have to use these articles and are supposed to use additional sources. </p>																