



APPLIES TO ACADEMIC YEAR 2014/2015

DRE 7005 Incentives and Contracts in Markets with Search Frictions

Programme

Economics

Responsible for the course

Espen R Moen

Department

Department of Economics

Term

According to study plan

ECTS Credits

6

Language of instruction

English

Introduction

Please note that this course will be revised before it is offered again.

The aim of the course is to give the students an introduction to search theory, particularly in a labor market context, and the interplay between private information and search frictions in the market.

Learning outcome

The course aims at taking the students to the research frontier on topics related to incentives in search models

Prerequisites

Admission to a PhD Programme is a general requirement for participation in PhD courses at BI Norwegian Business School. The course builds on DRE 4010 Topics in Microeconomics and DRE 7003 Advanced Microeconomics.

External candidates are kindly asked to attach confirmation of admission to a PhD programme when signing up for a course with the doctoral administration. Other candidates may be allowed to sit in on courses by approval of the courseleader. Sitting in on courses does not permit registration for courses, handing in exams or gaining credits for the course. Course certificates or conformation letters will not be issued for sitting in on courses

Compulsory reading

Books:

Pissarides, Christopher A. 2000. Equilibrium unemployment theory. 2nd ed. MIT press. Selected chapters

Articles:

Burdett, K. and Coles, M. 2003. Equilibrium Wage Tenure Contracts. *Econometrica*. 71. 1377-1404.

Burdett, K. and Mortensen, D.T. 1998. Wage Differentials, Employer Size, and Unemployment. *International Economic Review*. 39. 257-273.

Guerrieri, V. 2008. Inefficient Unemployment Dynamics under Asymmetric. *Journal of Political Economy*. 667-708

Guerrieri, V., Shimer, R., and Wright, R.. 2009. Adverse Selection in Competitive Search Equilibrium.

Econometrica. 78. 1823-1862

Menzio, G. and Moen, E.R.. 2010. Worker Replacement. *Journal of Monetary Economics*. 57. 623-636

Moen, E. R., and Rosén, Å. 2004. Does Poaching Distort Training. *Review of Economic Studies*. 71. 1143-1162.

Moen, E.R., and and Rosen, Å (2011). 2011. Incentives in Competitive Search Equilibrium. *Review of Economic Studies*. 733-761

Moen, E.R., and and Rosen, Å. 2005. Incentive Contracts and Adverse Selection. *Scandinavian Journal of Economics*. 107. 279-298

Moen, E.R., and and Rosen, Å. 2011. On-the-job Search and Moral Hazard. Unpublished

Moen, E.R., and Rosen, Å. 2006. Equilibrium Incentive Contracts and Efficiency Wages. *Journal of the European Economic Association*. 4. 1165-1192

Postel-Vinay, R., and Robin, J.M.. 2002. Equilibrium Wage Dispersion with Worker and Firm Heterogeneity". *Econometrica*. 70. 2295-2350

Recommended reading

Course outline

In the first part of the course, the main search models of the labor market, and to some extent the retail market, are discussed. These include the Diamond- Mortensen- Pissarides model and the Burdett- Mortensen model. Then we look at various extensions of the models, with particular emphasis on the interplay between contractual arrangements and search frictions. We analyze wage tenure contracts, search equilibrium with adverse selection and with moral hazard, and optimal human capital investments in the presence of search frictions.

Course structure:

The course will be taught in three intensive modules. Each module consists of 2*5 hours (2 days and 5 hours per day). Students are required to participate in class – both in discussions and by presenting models/material from the reading lists.

Computer-based tools

Learning process and workload

Workload (6 ECTS)

Lectures	30 hours
Specified learning activities (including reading)	75 hours
Autonomous student learning (including exam preparation)	75 hours
Total	180 hours

Examination

30 hours home exam.

Graded pass/fail

Examination code(s)

DRE 70051 accounts for 100% of the final grade in DRE 7005

Examination support materials

All written material

Re-sit examination

Re-takes are only possible at the next time a course will be held. When the course evaluation has a separate exam code for each part of the evaluation it is possible to retake parts of the evaluation. Otherwise, the whole course must be re-evaluated when a student wants to retake an exam.

Additional information

Honour Code

Academic honesty and trust are important to all of us as individuals, and represent values that are encouraged and promoted by the honour code system. This is a most significant university tradition. Students are responsible for familiarizing themselves with the ideals of the honour code system, to which the faculty are also deeply committed.

Any violation of the honour code will be dealt with in accordance with BI's procedures for cheating. These issues are a serious matter to everyone associated with the programs at BI and are at the heart of the honor code and academic integrity. If you have any questions about your responsibilities under the honour code, please ask.