

# Contracts with Application in Macroeconomics

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## Overview and Objectives

In this course, we will go over contract theory - dynamic and static models, and will study its applications in macroeconomics and finance: Optimal taxation, financial markets, risk sharing, etc.. We start by introducing techniques used in mechanism design and will go on to consider its applications.

## Requirements

TBD

## Course Outline

This is a rather ambitious course outline and works more like a reading list for your benefit. In each topic, I will teach one or two of the papers mentioned.

### Mechanism Design - Static

[Myerson \(1979\)](#), [Myerson \(1981\)](#), [Myerson and Satterthwaite \(1983\)](#), [d'Aspremont and Gérard-Varet \(1979\)](#)

### Applications

- Optimal Taxation: [Mirrlees \(1971\)](#), [Atkinson and Stiglitz \(1976\)](#), [Diamond \(1998\)](#), [Saez \(2001\)](#)
- Public Good Provision: [Mailath and Postlewaite \(1990\)](#)

- Bank Runs: [Diamond and Dybvig \(1983\)](#), [Green and Lin \(2003\)](#), [Peck and Shell \(2003\)](#)

## Mechanism Design - Dynamic

[Green \(1987\)](#), [Rogerson \(1985\)](#), [Thomas and Worrall \(1990\)](#), [Atkeson and Lucas Jr. \(1992\)](#)

### Applications

- Dynamic Optimal Taxation - capital income tax: [Goloso et al. \(2003\)](#), [Shourideh \(2011\)](#)
- Dynamic Optimal Taxation - labor income tax: [Farhi and Werning \(2011\)](#), [Goloso et al. \(2010\)](#)
- Long-Run Inequality: [Phelan \(2006\)](#), [Farhi and Werning \(2007\)](#), [Hosseini et al. \(2009\)](#)

## Continuous-Time Contracting

[Sannikov \(2008\)](#), [Williams \(2011\)](#)

### Applications

- Financial Contracting: [DeMarzo and Sannikov \(2006\)](#), [Biais et al. \(2007\)](#)

## Contracts and Competitive Markets

[Akerlof \(1970\)](#), [Rothschild and Stiglitz \(1976\)](#), [Bisin and Gottardi \(1999\)](#), [Prescott and Townsend \(1984\)](#)

### Applications

- Financial Crises: [Chari et al. \(2011\)](#), [Tirole \(2011\)](#)

## Limited Commitment

[Abreu et al. \(1990\)](#), [Kehoe and Levine \(1993\)](#), [Alvarez and Jermann \(2000\)](#), [Freixas et al. \(1985\)](#),

## Applications

- Optimal Taxation: [Farhi et al. \(2011\)](#), [Acemoglu et al. \(2006\)](#), [Roberts \(1984\)](#)
- Optimal Bailouts: [Chari and Kehoe \(2009\)](#), [Farhi and Tirole \(2011\)](#)

## Advanced Topics

### Implementation Theory

[Maskin \(1985\)](#), [Moore and Repullo \(1988\)](#), [Jackson \(1991\)](#)

### Robust Mechanism Design

[Bergemann and Morris \(2005\)](#)

### Information Transmission

[Crawford and Sobel \(1982\)](#)

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