

Seminar V

Problem 1

Review Problem 3 in Tirole, p. 627.

Note that there is a typo in the text in part (i): The difference $\bar{A}_p - \bar{A}_q$ should have the opposite sign, so that

$$\bar{A}_p - \bar{A}_q = \frac{p_H B - q_H b}{\Delta p} - (p_H - q_H)R$$

Also, in part (iii), the cost of hiring the active monitor is denoted M , whereas in Sec. 9.2.3, M denotes the monitor's rent. A notation more in line with the text in Chapter 9 would replace every occurrence of M in part (iii) of Review Problem 3 with C , where $C = c + M$ is the cost of hiring an active monitor, c is the monitoring cost, and M is the monitor's rent.

Problem 2

Review Problem 6, parts (i) and (ii), in Tirole, p. 629.

Problem 3

(i) Exercise 8.1 in Tirole, p. 353.

(ii) Compare with the analysis in Sec. 8.2.2. in Tirole, pp. 340-341.