



universität  
wien

Department of Economics  
Contact: Sandra Weißenböck  
+43-1-4277-37402  
[sandra.weissenboeck@univie.ac.at](mailto:sandra.weissenboeck@univie.ac.at)



INSTITUT FÜR HÖHERE STUDIEN  
INSTITUTE FOR ADVANCED STUDIES  
Vienna

Department of Economics and Finance  
Contact: Marion Kelemen  
+43-1-59991-145  
[economics@ihs.ac.at](mailto:economics@ihs.ac.at)

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# WIRTSCHAFTSTHEORETISCHES FORSCHUNGSSEMINAR

## RESEARCH SEMINAR IN ECONOMIC THEORY

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**October 15, 2009**

Hörsaal II  
Institut für Höhere Studien  
Stumpergasse 56, 1060 Wien

**4:00pm**

**Venkataraman BHASKAR,**  
*University College London:*

***“Incentives and the Shadow of the Future:  
Dynamic Moral Hazard with Learning”***  
Abstract printed on the next page

**5:30pm**

**Régis RENAULT,**  
*Université de Cergy-Pontoise:*

***“Advertising Heterogeneous Products to Heterogeneous Consumers”***  
Abstract printed on the next page

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DOWNLOAD SITE FOR PAPERS (IF AVAILABLE) AND SEMINAR SCHEDULE

<http://www.univie.ac.at/vwl/EconomicTheory.html>

NOTE: Participation of advanced students in this seminar is highly recommended.

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## ABSTRACTS

**Venkataraman BHASKAR,**

University College London:

### *“Incentives and the Shadow of the Future: Dynamic Moral Hazard with Learning”*

Following Holmstrom’s career concerns model, we study dynamic moral hazard, with symmetric ex ante uncertainty and learning. Unlike Holmstrom, uncertainty pertains to the difficulty of the job rather than the general talent of the agent, so that contracts are required to provide incentives. With one period commitment, the contracting game is a dynamic game with private monitoring, since effort is privately chosen. Our main findings are, in a sense, the opposite of Holmstrom’s. Long term interaction allows the agent to increase his future continuation value by deviating and exploiting the consequent misalignment of beliefs, thereby increasing the cost of inducing high effort. We characterize optimal contracts without commitment and also with renegotiation and full commitment. As the period of interaction increases (or if the agent becomes patient), incentive provision becomes increasingly costly.

**Régis Renault,**

Université de Cergy-Pontoise:

### *“Advertising Heterogeneous Products to Heterogeneous Consumers”*

A firm chooses a price and how much information to disclose about its product to a consumer whose tastes are unknown to the firm. Full disclosure of product information is always part of a sequential equilibrium. A necessary and sufficient condition on equilibrium payoffs is that they are at least as high as those under full revelation for all product types. We provide a sufficient, and to some extent, necessary condition for full disclosure of product information to be the unique equilibrium outcome. That condition encompasses the condition that all consumers agree on the ranking of product types’ quality as in the Persuasion Game but it also allows for different consumers to have different rankings of the potential product types.

with Frédéric Koessler, Paris School of Economics and CNRS.

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