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WIRTSCHAFTSTHEORETISCHES FORSCHUNGSSEMINAR

RESEARCH SEMINAR IN ECONOMIC THEORY

January 14, 2010

Institute for Advanced Studies
Stumpergasse 56, 1060 Wien
lecture room II, groundfloor (HSII)

4:00pm

Joao Montez,
London Business School:

“Bargaining with a principal: contracts v. agreements”

5:30pm

Jean-Jacques Herings,
University of Maastricht:

“Cooperation Under Incomplete Contracting”

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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“Bargaining with a principal: contracts v. agreements”

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“Cooperation Under Incomplete Contracting”

We examine the notion of the core when cooperation takes place in a setting with time and uncertainty. We do so in a two-period general equilibrium setting with incomplete markets. Market incompleteness implies that players cannot make all possible binding commitments regarding their actions at different date-events. We unify various treatments of dynamic core concepts existing in the literature. This results in definitions of the Classical Core, the Segregated Core, the Two-stage Core, the Strong Sequential Core, and the Weak Sequential Core. Except for the Classical Core, all these concepts can be denied by requiring absence of blocking in period 0 and at any date-event in period 1. The concepts only differ with respect to the notion of blocking in period 0. To evaluate these concepts, we study three market structures in detail: strongly complete markets, incomplete markets in finance economies, and incomplete markets in settings with multiple commodities. Even when markets are strongly complete, the Classical Core is argued not to be an appropriate concept. For the general case of incomplete markets, the Weak Sequential Core is the only concept that does not suffer from major defects.

with Helga Habis (University of Maastricht).

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