

# INTRODUCTION TO CONTRACT THEORY: SUMMARY

Analysis of contractual relationships in the presence of conflicts of interest and informational asymmetries

## • Models

- Adverse selection models
  - uninformed party imperfectly informed about characteristics of informed party. Uninformed party moves first
- Signaling models
  - uninformed party imperfectly informed about characteristics of informed party. Informed party moves first
- Moral hazard models
  - uninformed party moves first and is imperfectly informed about actions of informed party

- Principal-Agent model: one party has full bargaining power (Principal), proposes a take-it-or-leave-it offer - other party accepts or rejects (agent)

- Type of contract = complete vs incomplete -