

Ernst-Ludwig von Thadden
Universität Mannheim

E 8028: Financial Contract Theory

CDSE Fall Term 2025

The course provides an advanced introduction to the classic theory of incentives and information, usually called contract theory. It covers signalling, screening, scanning, hidden-action, and mixed models, and discusses models in discrete or continuous time and with discrete or continuous types. The theories are mostly applied to problems in finance, such as IPOs, security design, debt structure, insurance, market microstructure, banking, bankruptcy, corporate governance, or takeovers.

Schedule: Lecture Monday, 10:15 – 11:45 in L7, 3-5, P 044, starting September 2.

The course will not be based on a textbook. A good basis for many of the discussions in the course is

P. Bolton, M. Dewatripont, *Contract Theory*, MIT Press 2005.

Also the book by

J.J. Laffont, D. Martimort, *The Theory of Incentives*, Princeton University Press 2002,

is excellent. And of course, good old MasColell, Whinston, Green is always useful.

The standard reference for the game theory needed in the course is

D. Fudenberg and J. Tirole, *Game Theory*, Cambridge (MA), London: MIT Press 1991.

A stimulating reference for those interested in contracts in practice is

A. Schwartz, R. Scott, “Contract Theory and the Limits of Contract Law”, *Yale Law Journal* 113, 2003.

In the first part, we shall review some advanced concepts, in the second we shall discuss recent research papers based on student presentations. Students wishing to take the course for credit must submit a paper of 10-15 pages covering a research paper in detail and developing a research idea of their own.