

## ESAM09 PROGRAM CHANGES, ADDENDA AND ERRATA

### PROGRAM CHANGES

- Paper 7.1 (by J.C. Rochet) is now titled "Dynamic contracting in banking and other hazardous industries"
- Christoph Jessberger will present Paper 10.3
- Max King will present Paper 44.1

### ADDENDA

Abstract for Paper 7.1 (Dynamic contracting in banking and other hazardous industries, by Jean Charles Rochet)

We study a continuous-time principal-agent model in which a risk-neutral agent with limited liability must exert unobservable effort to reduce the likelihood of large but relatively infrequent losses. Firm size can be decreased at no cost, and increased subject to adjustment costs. In the optimal contract, investment takes place only if a long enough period of time elapses with no losses occurring. Then, if good performance continues, the agent is paid. As soon as a loss occurs, payments to the agent are suspended, and so is investment if further losses occur. Accumulated bad performance leads to own-sizing. We derive explicit formulae for the dynamics of firm size and its asymptotic growth rate, and we provide conditions under which firm size eventually goes to zero, or grows without bounds.

Abstract for Paper 55.1 (Resource allocation without prices, by Larry Samuelson)

Economic theory focuses on prices as a means of allocating resources. However, many resource allocation decisions appear to be made without prices, or in the presence of prices that appear to be unequal to the allocation task. Businesses often equilibrate their interactions not by adjusting prices, but by adjusting implicit continuation payoffs. Only a tiny fraction of our personal interactions involve monetary transfers, with many of the others giving rise to the creation and exchange of social assets in an implicit market without prices. Other markets, such as that for highly specialized labor, clearly involve prices but show no apparent connection between these prices and market-clearing conditions. For example, price appear to play little role in clearing the market for new PhD.s in economics. How are resources allocated in such situations? This talk will consider a series of models (depending on time) of markets in which examining prices alone is not sufficient to understand the resulting resource allocation. The first involves the ability of repeatedly-interacting agents to form reciprocal buying agreements that implicitly allow price discrimination, in the process loosening the demand constraints imposed by imperfectly competitive markets, and hence lead to mutual benefits. The second examines the extent to which prices must be "personalized" in order to clear markets with complementarity-induced matching considerations. The third (almost certainly to be precluded by time constraints) is a model of "favors."

### ERRATA

- The web-site address for RSSS Economics is <http://econrsss.anu.edu.au/> (P10)
- The speakers in Session 7 are Jean Charles Rochet and Gabrielle Demange (p 30)
- The speakers in Session 24 are George Mailath and Yossi Feinberg (p 30)
- The key words for Paper 3.1 should be: Division of labor, evolutionarily stable strategy, replicator dynamics, and mutation (p 34)
- The date in the dark blue portion of the program matrix should be Wed 8<sup>th</sup> (p 104)