


## *Foreword*

The development of the theory of incentives has been a major advance in economics in the last thirty years. The objective of this book is to provide easy access to this theory for undergraduate and first-year graduate students in economics. Our goal is not to be as complete as possible in covering and surveying the many contributions that have flourished in the realm of incentive theory. Instead, our contribution is methodological and intended to offer students some initial clues for analyzing the issues raised by this theory. As much as possible we have favored the simplest models to explain the core of the theory. The exposition has been divided into three books for methodological clarity. This volume presents the basic principal-agent theory with complete contracts. It allows a first exposition of the transaction costs created by contracting under asymmetric information without having to appeal to sophisticated game theory concepts.

The book allows for two levels of reading. Certain sections in some chapters are marked with a star to the right of the section head. A first reading should concentrate on the non-starred sections. These sections are accessible to readers who have a simple knowledge of maximization with inequality constraints. Most essential economic lessons can be understood from this first level of reading. Covering the starred sections will enable students to manipulate the concepts for better

assimilation and will put them in contact with the advanced topics of the field. Going through the text and checking the proofs should provide a good way for students to appropriate the material. Throughout the book we have listed under the heading  the major references that are useful to pursue the study of incentive theory.

We thank our students whose excitement for the topic has led to this enterprise of trying to synthesize what we have learned in incentive theory. We are grateful also to Cécile Aubert, Gary Biglaiser, Xavier Carpentier, Pierre Dubois, Yolande Hiriart, Wu Kai, Fahad Khalil, Claudio Mezzetti, Jérôme Pouyet, and Stéphane Straub, who have offered comments on the first draft and to Marie-Pierre Boé who cheerfully and repeatedly revised our chapters.

# The Theory of Incentives

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