

Patrick W. Schmitz

Essays on the Economic Theory of Contracts and Incentives

Organizational Design, Adverse
Selection, and Contractual Freedom

Berichte aus der Volkswirtschaft

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Summary

This book on the economic theory of contracts and incentives consists of three parts.

In Part I, it is illustrated how the organization of economic activities can be studied from a contract-theoretic point of view. In a complete contracting framework, it is explored whether one agent or two different agents should be in charge of two sequential tasks. In an incomplete contracting framework, the pros and cons of public ownership, private ownership, and partial privatization are discussed.

In Part II, the robustness of adverse selection models is studied, where an uninformed principal makes a contract offer to privately informed agents. It turns out that verifiable ex-post information may lead to upward distortions of the trade level. In the context of patent licensing, more trade might occur under asymmetric information than under symmetric information. Second-price auctions can be welfare-reducing if there is competition between two principals.

In Part III, it is demonstrated that legal restrictions on the freedom to contract can sometimes be socially desirable, even in the absence of negative externalities on third parties. In particular, it can be welfare-enhancing not to enforce non-renegotiation clauses in contracts. Moreover, privacy protection laws that restrict an employer's possibilities with regard to workplace surveillance and job protection laws can be welfare-enhancing in principal-agent settings.

About the author

Patrick W. Schmitz is a full professor of economics at the University of Cologne and a Research Fellow at the Centre for Economic Policy Research (CEPR), London. Schmitz graduated at the University of Bonn. His research has been published in numerous journals, including the *American Economic Review* and the *Review of Economic Studies*. He was awarded the Karl-Arnold-Prize by the NRW Akademie der Wissenschaften in 2006 and the Hans-Kelsen-Prize by the University of Cologne in 2015. In 2006, Schmitz was ranked number one in the *Handelsblatt* ranking of German economists below the age of 40. In 2007, he became a member of the "Young Elite" selected by the business paper *Capital*. According to the international database IDEAS/RePEc, in 2019 Schmitz was ranked among the top 10 economists in the field "Contract Theory and Applications" (CTA), out of over 600 economists specialized in this field worldwide.