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## SI 680 — ICD: SIGNALING AND CONTRACTING

PROF. JEFFREY MACKIE MASON

Winter 2008. Version: March 1, 2008

NOTE: Reading and complying with these course policies is mandatory. Review periodically during the term; there is a very good chance questions you have about course administration are answered here.

### 1. COURSE DESCRIPTION

This course is a half-semester module, Incentive-Centered Design: Contracting and Signaling. My goal is to prepare you to advise clients or your own organization on the design of contracts and screening policies when one of the parties has an information advantage over the other. For example, we will study the design of intellectual property licenses (the licensor knows more about the market), and the design of social systems to reduce spam (the spam sender knows more about the content before the recipient decides whether to read).

My teaching objectives are:

- To provide you with a grounding in the incentive-centered design methodology.
- To enable you to derive, manipulate and understand a core set of design principles from the contracting and signaling literature.
- To enable you to intuitively and quantitatively apply the design principles to the design of real world agreements and information systems.
- To provide a conceptual framework for thinking about incentive problems facing managers and entrepreneurs.

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## 2. ADMINISTRATION

The weekly schedule is available in CTools under "Schedule" (and also in a single PDF document in Resources > Admin).

Email: I typically receive over 200 spam, virus and other junk messages a day. If you are sending course related e-mail, you'll get a response within one business day if you put "680" somewhere in the subject line. There's no guarantee of response time otherwise.

Office hours: There is little substitute for a face-to-face conversation about something you find interesting, or confusing. I hold my scheduled office hours in West Hall to make it easier for you to see me.

Course blog discussion items: I will occasionally start discussions in the course blog, available from the CTools menu on the left.<sup>1</sup> Participation in CTools discussion is a **STRONGLY ENCOURAGED** component of class participation. I value quality over quantity, but as a guideline I will consider one posting per week as "median" (B+/A-) participation. I will check on discussions at least once a week.

Items in the blog can include continuations of class discussions, interesting examples from the world, or issues about class management, homework questions etc. if you have something urgent concerning class administration, contact me directly. If there is something important for all of you to know I will broadcast it through the class email list.

Phone: I rarely answer the phone (I like to control my interruptions so I can get work done), and I often forget to check voice mail for a few days at a time. Email is a much more reliable way to reach me.

## 3. COURSE REQUIREMENTS

3.1. Summary and Dates. The requirements for all students are:

- (1) Read assignments marked "Mandatory".
- (2) Prepare for case studies before class.
- (3) Turn in a one-two page case memo responsive to the case assignment I post, at the start of each week's class (except the first).
- (4) Attend class and participate in discussion.
- (5) Two homework assignments (26 March, 18 April).
- (6) Submit a written self-evaluation of your participation and performance in this class (21 April).

Your grade will depend 20% on class preparation and participation, 40% on the homework assignments and 40% on the weekly case memos.

<sup>1</sup>For those of you who weren't in SI 646, we are going to continue using the blog from that class. Feel free to read and add to old discussions; don't be confused by the somewhat different subject matter that is already there.

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3.2. Elaboration. You must come to class prepared for discussion. Some weeks the reading is quite lengthy; other weeks less so. Do not wait until the night before to start. Participation will count towards your grade, and if necessary I will cold-call on you to answer questions and participate in discussion, so you must be prepared. In addition, participation in discussions of class material (and related ideas or applications) in the blog will count towards class participation, in part to offer an alternative to those who have greater difficulty speaking out in a group discussion. "Median" (from a grading perspective) blog participation is one thoughtful post or comment per week.

Blog participation is not a complete substitute for classroom participation: speaking in a group setting is an important skill to learn. If you find it very difficult to formulate thoughts quickly, I suggest that you prepare comments on some issue in the case or readings before class: there will surely be a time when it will be appropriate to raise that topic. When multiple hands are raised I make an effort to call on those who participate less, so as long as you get your hand up now and then, you will get a chance to speak.

There will be two homework assignments, distributed via CTools. I will either ask you to solve specific problems, or to respond to short questions. For each assignment, I will post my suggested answers after one week. Late assignments will be graded down one letter grade if submitted within one week; you will receive no credit if later than that.

The case memos are a tool to enhance your preparation for each week's discussion. (Remember what cognitive psychology teaches us about elaboration and depth of processing?) I will not be grading these on writing style, though they need to be coherent for me to review. Bullet points or complete sentences are fine. I will post a case assignment document with each week's readings that will specify the questions you are to address in your preparation and case memo. Grading will be based on completeness and thoughtfulness of your preparation, not on whether the answers are "correct" (in many instances there will not be a single correct answer).

I prefer that you submit assignments via CTools, but hardcopy is fine too. You may submit the assignments to my mailbox, via CTools, or to my office.

At the end of the semester you must submit a written self-evaluation of your participation and performance in this class.

## 4. USEFUL RESOURCES

Here are some useful collections of information if you want to learn more about incentive-centered design and its applications.

- ICD Stuff (bog by JMM): <http://mblog.lib.umich.edu/jmm/>

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- Wiki for the ICD research community of faculty and graduate students at SI: <http://www.si.umich.edu/icd/wiki/>

5. POLICY ON ORIGINAL WORK

5.1. Collaboration. I strongly encourage collaboration while working on homework problems, and while discussing and interpreting the reading assignments. Active learning is much more effective than passive. Collaboration will be especially valuable in summarizing the reading materials and picking out the key concepts, and in brainstorming about solution methods for addressing problems. You must, however, write your homework submission on your own, in your own words, before turning it in. MANDATORY: On written submissions, include at the beginning or the end an acknowledgment listing the names of any other students you worked with in preparing for the assignment.

I expect you to respect the dignity of your fellow students.

5.2. Plagiarism. All written submissions must be your own, original writing.

You may incorporate selected excerpts from publications by other authors, but they must be clearly marked as quotations (using indented block quotation or quotation marks) and must be attributed. If you build on the ideas of prior authors, you must cite their work. You may obtain copy editing assistance, and you may discuss your ideas with others, but all substantive writing and ideas must be your own or be explicitly attributed to another (including other students). See the Rackham Graduate Student Handbook for the definition of plagiarism, and associated consequences.

6. MUTUAL RESPECT

I will listen respectfully to your ideas, and will respond to any complaints or concerns you raise, with the nature of the response tailored to the nature of the concern.

I will be prepared for class, and will strive to guide you towards learning a large amount of challenging but powerfully useful material.

I will use clear criteria for my grading to the extent possible, and will answer questions you have about how grades were assigned. If you want me to review grading on an assignment, I will do that, but to be fair to all students I will review and re-grade the entire assignment, not just the question or specific issue to which you draw attention. (If you haven't learned about how selection biases work yet, now would be a good time to ask me – it's a very important concept with applications throughout life.)

I expect you to be prepared for class. I expect you to arrive on time (mostly out of respect for your fellow students). I expect you to participate in the discussions I am leading, and not to hold side discussions during class.

7. Accommodations for students with disabilities

The University Faculty Senate (SACUA) in 2006 endorsed the following language for inclusion on course syllabi:

If you think you need an accommodation for a disability, please let me know at your earliest convenience. Some aspects of this course, the assignments, the in-class activities, and the way we teach may be modified to facilitate your participation and progress. As soon as you make me aware of your needs, we can work with the Office of Services for Students with Disabilities (SSD) to help us determine appropriate accommodations. SSD (<http://www.umich.edu/sswd/>) typically recommends accommodations through a Verified Individualized Services and Accommodations (VISA) form. I will treat any information you provide as private and confidential.