

Topics in Microeconomic Theory

Asymmetric Information in Dynamic Markets

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Francesc Dilmé

Objectives

Asymmetric information is prevalent in modern markets. Buyers know their willingness to pay, workers know their skills, and firms know their financial situation. To assess the efficiency and fairness generated in these markets, understanding the interaction of the economic forces present is crucial.

The goal of this course is to introduce students to various classical and modern literatures that analyze the role of asymmetric information in dynamic markets. In the first part of the course, the instructor will cover material from the literature using slides. In the second part, students will present papers using slides, and we will discuss them. Everyone is expected to have read the paper presented at each lecture.

By the end of the course, students will be able to understand and answer core questions in dynamic markets with asymmetric information, connecting durable-goods monopoly (Coase conjecture), dynamic signaling, lemons and transparency, reputation, and reputational bargaining. They will formulate and solve canonical dynamic games (using PBE/MPE as appropriate), derive comparative statics, and assess equilibrium selection and commitment issues; read frontier papers efficiently by pinpointing assumptions, techniques, and contributions, evaluating robustness and limitations, and mapping results to common frameworks; and communicate research clearly through professional paper presentations.

Schedule

The class takes place every Monday, 14:15 -15:45 at Room 0.017 (former Room 055) in the Juridicum. Slides for the class will be available in advance on eCampus. For any question, you can contact me at fdilme@uni-bonn.de.

Grading

The grade of the course will come from three sources. 1. A presentation of a research paper. 2. Referee report of a research paper. 3. Research proposal. Note: Soon you will be starting dissertation research; now is the right time to start mulling over ideas. To encourage you to do this, I will require a research proposal of around two pages. Use this to look for topics that excite you for your dissertation.

Schedule and papers

Papers marked with ★ will be discussed during the lectures. The papers marked with ○ are available to be chosen to be presented in class.

1. Dynamic signaling: 1 lecture

- Noldeke and van Damme, “Signalling in a Dynamic Labour Market”, *Review of Economic Studies*, 1990.
- ★ Swinkels, “Education Signalling with Preemptive Offers”, *Review of Economic Studies*, 1999.
- Kremer and Skrzypacz, “Dynamic signaling and market breakdown”, *Journal of Economic Theory*, 2007.

2. Coase conjecture: 1.5 lectures

- Coase, “Durability and Monopoly”, *Journal of Law and Economics*, 1972.
- Conlisk, Gerstner and Sobel, “Cyclic Pricing by a Durable Goods Monopolist”, *Quarterly Journal of Economics*, 1984.
- ★ Gul, Sonnenschein and Wilson, “Foundations of dynamic monopoly and the Coase conjecture”, *Journal of Economic Theory*, 1986.
- Board and Pycia, “Outside Options and the Failure of the Coase Conjecture”, *American Economic Review*, 2014.
- Nava and Schiraldi, “Differentiated Durable Goods Monopoly: a Robust Coase Conjecture”, *American Economic Review*, 2019.

3. Markets for durable goods: 1.5 lectures

- Janssen and Roy, “Dynamic Trading in a Durable Good Market with Asymmetric Information”, *International Economic Review*, 2002.
- ★ Hörner and Vieille, “Public vs Private Offers in the Market for Lemons”, *Econometrica*, 2009.
- Daley and Green, “Waiting for News in the Market for Lemons”, *Econometrica*, 2012.
- Kaya and Liu, “Transparency and Price Formation”, *Theoretical Economics*, 2015.
- Kim, “Information about Sellers’ Past Behavior in the Market for Lemons”, *Journal of Economic Theory*, 2017.

4. Reputations: 1 lecture

- Tadelis, “What’s in a Name? Reputation as a Tradeable Asset”, *American Economic Review*, 1999
- Mailath and Samuelson, “Who Wants a Good Reputation?”, *Review of Economic Studies*, 2001.
- ★ Ely and Välimäki, “Bad Reputation”, *Quarterly Journal of Economics*, 2003.
- Cripps, Mailath and Samuelson, “Disappearing Private Reputations in Long-Run Relationships”, *Journal of Economic Theory*, 2007.
- Best and Quigley, “Persuasion for the Long Run”, *Journal of Political Economy*, 2024.

5. Reputation for quality: 1 lecture

- ★ Board and Meyer-ter-Vehn, “Reputation for Quality”, *Econometrica*, 2014.
- Dilmé, “Reputation Building through Costly Adjustment”, *Journal of Economic Theory*, 2019.
- Hauser, “Promoting a Reputation for Quality”, *RAND Journal of Economics*, 2024.

6. Reputational bargaining: 2 lectures

- Gul and Sonnenschein, “On Delay in Bargaining with One-Sided Uncertainty,” *Econometrica*, 1988.
- ★ Abreu and Gul, “Bargaining and Reputation,” *Econometrica*, 2000.
- ★ Gul and Pesendorfer, “The War of Information”, *Review of Economic Studies*, 2012.
- Daley and Green, “Bargaining and News,” *American Economic Review*, 2020.
- Fanning, “Mediation in Reputational Bargaining,” *American Economic Review*, 2021.