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## Preface

Contract theory, information economics, incentive theory, and organization theory have been highly successful and active research areas in economics, finance, management, and corporate law for more than three decades. A number of founding contributors have been rewarded with the Nobel prize in economics for their contributions in this general area, including Ronald Coase, Herbert Simon, William Vickrey, James Mirrlees, George Akerlof, Joseph Stiglitz, and Michael Spence. There is now a vast literature relating to contract theory in leading economics, finance, and law journals, and yet a relatively small number of core notions and findings have found their way into textbooks. The most recent graduate textbooks in microeconomics<sup>1</sup> devote a few chapters to basic notions in incentive and information economics like *adverse selection*, *moral hazard*, and *mechanism design*, but this material serves only as an introduction to these enormous topics.

The goal of this book is to provide a synthesis of this huge area by highlighting the common themes and methodologies that unite this field. The book can serve both as a complementary text for a graduate or advanced undergraduate course in microeconomics and for a graduate course in contract theory. Although we aim to provide very broad coverage of the research literature, it is impossible to do justice to all the interesting articles and all subfields that have emerged over the past 30 years. As a remedy against the most obvious gaps and omissions, we make a limited attempt to provide a short guide to the literature at the end of each chapter. Even if this book leaves out large portions of the literature, it still contains far too much material for even a full-semester course in contract theory. Our intention was to give instructors some discretion over which chapters to emphasize and to leave it to the students to do the background reading.

The book also presents methodological results in the key application areas where they have been developed, be they in labor economics, organization theory, corporate finance, or industrial organization, for example. In this way, the book can also serve as a reference source for researchers interested in the very many applications of contract theory in economics. The philosophy of the book is to stress applications rather than general theorems, while providing a simplified yet self-contained treatment of the key models and methodologies in the literature.

We owe an immeasurable intellectual debt to our advisers, Oliver Hart, Andreu Mas-Colell, Eric Maskin, John Moore, and Jean Tirole. Their

1. See, for example, the books by Kreps (1990) and Mas-Colell, Whinston, and Green (1995).

influence is visible on almost every page of this book. And although we have not had the good fortune to have them as our advisers, the intellectual influence of Bengt Holmström, Jean-Jacques Laffont, Paul Milgrom, James Mirrlees, and Roger Myerson has been just as important. The inspiration and support of our coauthors, Philippe Aghion, Christopher Harris, Ian Jewitt, Bruno Jullien, Patrick Legros, Steve Matthews, Patrick Rey, Alisa Roell, Gérard Roland, Howard Rosenthal, David Scharfstein, Ernst-Ludwig von Thadden, Michael Whinston, and Chenggang Xu, has been invaluable. In particular, Philippe Aghion and Patrick Rey have played a major role throughout the long gestation period of this book.

Over the years, every chapter of the book has been tested in the classroom. We thank our students at ECARES (Université Libre de Bruxelles), Tilburg, Princeton, MIT, Helsinki, and the summer schools in Oberwesel and Gerzensee for their comments. We also thank Philippe Aghion and Oliver Hart for using our manuscript in their contract theory courses at Harvard and for their feedback. We are grateful to Kenneth Ayotte, Estelle Cantillon, Antonio Estache, Antoine Faure-Grimaud, Denis Gromb, Christopher Hennessy, Andrei Hagiu, Jacques Lawarrée, Joel Shapiro, Jean Tirole, and three anonymous MIT Press readers for comments and advice. We are particularly grateful to Kathleen Hurley, Diana Prout, and Ellen Sklar for all their help in preparing the manuscript. We are also enormously grateful to our editors, Terry Vaughn and John Covell, for their continuing support and for making sure that we bring this project to completion.