

“Screening Under Fixed Cost of Misrepresentation”

(Joint with Sergei Severinov)

~in English~



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Time: 3:30pm – 5:00pm

Venue: WYL314, 3/F, Dorothy Y. L. Wong Building

Abstract

The paper studies optimal screening problem in which an agent incurs a fixed cost of lying when she misrepresents her private information. In this environment, local incentive constraints are not binding in the optimal mechanism, and standard techniques for solving screening problems are not applicable. Significantly, the problem can no longer be dichotomized into two parts solved sequentially: an implementability part which involves the envelope condition and monotonicity of the allocation, and an optimization part. We develop a new methodology to tackle this problem and use it to characterize the optimal mechanism and compute it in special cases. Our method involves a procedure that jointly solves for the binding incentive constraints and the optimal allocation. The optimal mechanism has a number of interesting qualitative properties, such as lack of exclusion and first-best efficient allocation being offered to high- and low-value types. Bunching never arises, as the optimal quantity allocation is always increasing in type independently of type distribution.

Biography

Terry Tam is a PhD student at the Vancouver School of Economics, University of British Columbia. His primary research interests lie in the field of Microeconomic Theory, with a specific focus on the intersection of Mechanism design and Behavioral Economics.

All Are Welcome

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