Theory Of Incentives In Procurement And Regulation

#incentive theory #procurement strategies #regulatory economics #contract design #public governance

Explore the foundational principles of incentive theory and its critical applications in optimizing both procurement processes and regulatory frameworks. This field delves into how strategically designed incentive mechanisms can drive efficiency, foster innovation, and achieve desired outcomes within complex economic and administrative systems, crucial for effective public and private sector operations.

A Theory of Incentives in Procurement and Regulation

Based on their work in the application of principal-agent theory to questions of regulation, Laffont and Tirole develop a synthetic approach to this field, focusing on the regulation of natural monopolies such as military contractors, utility companies and transportation authorities.

The Theory of Incentives

Economics has much to do with incentives--not least, incentives to work hard, to produce quality products, to study, to invest, and to save. Although Adam Smith amply confirmed this more than two hundred years ago in his analysis of sharecropping contracts, only in recent decades has a theory begun to emerge to place the topic at the heart of economic thinking. In this book, Jean-Jacques Laffont and David Martimort present the most thorough yet accessible introduction to incentives theory to date. Central to this theory is a simple question as pivotal to modern-day management as it is to economics research: What makes people act in a particular way in an economic or business situation? In seeking an answer, the authors provide the methodological tools to design institutions that can ensure good incentives for economic agents. This book focuses on the principal-agent model, the "simple" situation where a principal, or company, delegates a task to a single agent through a contract--the essence of management and contract theory. How does the owner or manager of a firm align the objectives of its various members to maximize profits? Following a brief historical overview showing how the problem of incentives has come to the fore in the past two centuries, the authors devote the bulk of their work to exploring principal-agent models and various extensions thereof in light of three types of information problems: adverse selection, moral hazard, and non-verifiability. Offering an unprecedented look at a subject vital to industrial organization, labor economics, and behavioral economics, this book is set to become the definitive resource for students, researchers, and others who might find themselves pondering what contracts, and the incentives they embody, are really all about.

Incentives In Procurement Contracting

This volume presents a nontechnical treatment of issues that arise in procurement contracting, with an emphasis on major weapons systems procurement. Employing the economic theory of agency as their analytical framework, contributors assess the incentives that arise, for both buyers and sellers, in different contractual settings. Procurement contra

The Theory of Corporate Finance

The past twenty years have seen great theoretical and empirical advances in the field of corporate finance. Whereas once the subject addressed mainly the financing of corporations--equity, debt, and valuation--today it also embraces crucial issues of governance, liquidity, risk management, relationships between banks and corporations, and the macroeconomic impact of corporations. However, this progress has left in its wake a jumbled array of concepts and models that students are often hard put to make sense of. Here, one of the world's leading economists offers a lucid, unified, and comprehensive introduction to modern corporate finance theory. Jean Tirole builds his landmark book around a single model, using an incentive or contract theory approach. Filling a major gap in the field, The Theory of Corporate Finance is an indispensable resource for graduate and advanced undergraduate students as well as researchers of corporate finance, industrial organization, political economy, development, and macroeconomics. Tirole conveys the organizing principles that structure the analysis of today's key management and public policy issues, such as the reform of corporate governance and auditing; the role of private equity, financial markets, and takeovers; the efficient determination of leverage, dividends, liquidity, and risk management; and the design of managerial incentive packages. He weaves empirical studies into the book's theoretical analysis. And he places the corporation in its broader environment, both microeconomic and macroeconomic, and examines the two-way interaction between the corporate environment and institutions. Setting a new milestone in the field, The Theory of Corporate Finance will be the authoritative text for years to come.

The Principal Agent Model

Incentive theory has been a major development in economics and the principal-agent model is the core of this theory. This authoritative collection brings together the essential literature concerning the principal-agent model when no restrictions on the design of the principal's contract exist in terms of complexity, enforcement and rationality. historical formulation of the problem to the first attempts to formalize it. Part two deals with the case of moral hazard and adverse selection is the topic of Part three. Part four presents contributions on current research issues such as the impact of communication constraints, endogenous information structures and multidimensional incentive problems.

Incentive Regulation and the Regulation of Incentives

The class is theory of price regulation assumed that the regulator knows the fIrm's costs, the key piece of information that enables regulators to pressure fmns to choose appropriate behaviors. The "regulatory problem" was reduced to a mere pricing problem: the regulator's goal was to align price with marginal cost, subject to the constraint that revenues must cover costs. Elegant and important insights ensued. The most important was that regulation was inevitably a struggle to achieve second-best outcomes. (Ramsey pricing was a splendid example.) Reality proved harsh to regulatory theory. The fmn's costs are by no means known to the regulator. At best, the regulator may know how much is currently spent to provide services, but hardly what costs would be if the fmn vigorously pursued effIciency. Even if the current cost curve were known to the regulator, technologies change so swiftly that today's costs are a very poor indicator of tomorrow's, and those are the costs that will determine the fIrm's future decisions. With the burgeoning attention to information considerations and game theory in economics, the regulator's problem of eliciting host information about cost has received considerable attention. In most cases, however, it has been in context that are both static and stylized; such analyses rarely capture many of the essential elements of real world regulatory issues. This volume represents a fresh approach. It reflects Glenn Blackmon's twin strengths, a keen analytic mind and important experience in the regulatory arena.

Incentives in Procurement Contracting

This comprehensive two-volume research collection recaps major literary contributions to the economic theory of incentives. The carefully selected papers spanning forty years analyse and review collective decision problems in the context of asymmetric information, moral hazard and incomplete contracting.

Together with an original introduction by the editor, this collection would be a valuable addition to the bookshelves of any serious scholar and student in the field.

The Economic Theory of Incentives

In Regulation and Development Jean-Jacques Laffont provides the first theoretical analysis of regulation of public services for developing countries. He shows how the debate between price-cap regulation and cost of service regulation is affected by the characteristics of less developed countries (LDCs) and offers a positive theory of privatization that stresses the role of corruption. He develops a new theory of regulation with limited enforcement capabilities and discusses the delicate issue of access pricing in view of LDC's specificities. In the final chapter he proposes a theory of separation of powers which reveals one of the many vicious circles of underdevelopment made explicit by the economics of information. Based on organization theory and history, and using simple empirical tests wherever possible, Professor Laffont offers a comprehensive evaluation of the different ways to organize the regulatory institutions and opens up a rich new research agenda for development studies.

Regulation and Development

This comprehensive research review recaps major literary contributions to the economic theory of incentives. These carefully selected papers, both classic and contemporary, analyse collective decision problems in the context of asymmetric information, moral hazard and incomplete contracting. This review is an essential tool for any serious scholar and student in the field.

The Economic Theory of Incentives

This wide-ranging review of some of the major issues in development economics focuses on the role of economic and political institutions. Drawing on the latest findings in institutional economics and political economy, Pranab Bardhan, a leader in the field of development economics, offers a relatively nontechnical discussion of current thinking on these issues from the viewpoint of poor countries, synthesizing recent research and reflecting on where we stand today. The institutional framework of an economy defines and constrains the opportunities of individuals, determines the business climate, and shapes the incentives and organizations for collective action on the part of communities; Pranab Bardhan finds the institutional framework to be relatively weak in many poor countries. Institutional failures, weak accountability mechanisms, and missed opportunities for cooperative problem-solving become the themes of the book, with the role of distributive conflicts in the persistence of dysfunctional institutions as a common thread. Special issues taken up include the institutions for securing property rights and resolving coordination failures; the structural basis of power; commitment devices and political accountability; the complex relationship between democracy and poverty (with examples from India, where both have been durable); decentralization and devolution of power; persistence of corruption; ethnic conflicts; and impediments to collective action. Formal models are largely avoided, except in two chapters where Bardhan briefly introduces new models to elucidate currently under-researched areas. Other chapters review existing models, emphasizing the essential ideas rather than the formal details. Thus the book will be valuable not only for economists but also for social scientists and policymakers.

Scarcity, Conflicts, and Cooperation

Tirole analyzes the current views on financial crises and on the reform of the international financial architecture. Based on the Paolo Baffi Lecture the author delivered at the Bank of Italy, this refreshingly accessible book is teeming with rich insights that researchers, policy makers, and students at all levels will find indispensable.

Three Essays on Economic Incentive Mechanisms

In this revised second edition, An Introduction to the Economics of Information covers the consequences for the character and efficiency of the interaction between individuals and organizations when one party has more or better information on some aspect of the relationship. This is the condition of asymmetric information, under which the information gap will be exploited if, by doing so, the better-informed party can achieve some advantage. The book is written for a one-semester course for advanced undergraduates taking specialized course options, and for first-year postgraduate students of economics or business. After an introduction to the subject and the presentation of a benchmark model in which both parties share the same information throughout the relationship, chapters are devoted to the three main asymmetric information topics of Moral Hazard, Adverse Selection, and Signalling. The wide range of economic situations where the conclusions are applied includes such areas as finance, regulation, insurance, labour economics, health economics, and even politics. Each chapter presents the basic theory before moving on to applications and advanced topics. The problems are presented in the same framework throughout to allow easy comparison of the different results. This new edition incorporates extended exercises to test the student's understanding of the material, and to develop the tools and skills provided by the main text to solve other, original problems.

Financial Crises, Liquidity, and the International Monetary System

This is the first book to provide a systematic treatment of the economics of antitrust (or competition policy) in a global context. It draws on the literature of industrial organisation and on original analyses to deal with such important issues as cartels, joint-ventures, mergers, vertical contracts, predatory pricing, exclusionary practices, and price discrimination, and to formulate policy implications on these issues. The interaction between theory and practice is one of the main features of the book, which contains frequent references to competition policy cases and a few fully developed case studies. The treatment is written to appeal to practitioners and students, to lawyers and economists. It is not only a textbook in economics for first year graduate or advanced undergraduate courses, but also a book for all those who wish to understand competition issues in a clear and rigorous way. Exercises and some solved problems are provided.

An Introduction to the Economics of Information

Antitrust law regulates economic activity but differs in its operation from what is traditionally considered "regulation." Where regulation is often industry-specific and involves the direct setting of prices, product characteristics, or entry, antitrust law focuses more broadly on maintaining certain basic rules of competition. In these lectures Michael Whinston offers an accessible and lucid account of the economics behind antitrust law, looking at some of the most recent developments in antitrust economics and highlighting areas that require further research. He focuses on three areas: price fixing, in which competitors agree to restrict output or raise price; horizontal mergers, in which competitors agree to merge their operations; and exclusionary vertical contracts, in which a competitor seeks to exclude a rival. Antitrust commentators widely regard the prohibition on price fixing as the most settled and economically sound area of antitrust. Whinston's discussion seeks to unsettle this view, suggesting that some fundamental issues in this area are, in fact, not well understood. In his discussion of horizontal mergers, Whinston describes the substantial advances in recent theoretical and empirical work and suggests fruitful directions for further research. The complex area of exclusionary vertical contracts is perhaps the most controversial in antitrust. The influential "Chicago School" cast doubt on arguments that vertical contracts could be profitably used to exclude rivals. Recent theoretical work, to which Whinston has made important contributions, instead shows that such contracts can be profitable tools for exclusion. Whinston's discussion sheds light on the controversy in this area and the nature of those recent theoretical contributions. Sponsored by the Universidad Torcuato Di Tella

Competition Policy

How can organizations ensure that they can get best value for money in their procurement decisions? How can they stimulate innovations from their dedicated suppliers? With contributions from leading academics and professionals, this 2006 handbook offers expert guidance on the fundamental aspects of successful procurement design and management in firms, public administrations, and international institutions. The issues addressed include the management of dynamic procurement; the handling of procurement risk; the architecture of purchasing systems; the structure of incentives in procurement contracts; methods to increase suppliers' participation in procurement contests and e-procurement platforms; how to minimize the risk of collusion and of corruption; pricing and reputation mechanisms in e-procurement platforms; and how procurement can enhance innovation. Inspired by frontier research, it provides practical recommendations to managers, engineers and lawyers engaged in private and public procurement design.

Lectures on Antitrust Economics

Leading scholars from across the social sciences present empirical evidence that the obstacle of regulatory capture is more surmountable than previously thought.

Incentive Versus Transaction Costs

The authors analyze regulatory reform and the emergence of competitionin network industries using the state-of-the-art theoretical tools ofindustrial organization, political economy, and the economics ofincentives.

Handbook of Procurement

A concise introduction to the theory of contracts, emphasizing basic tools that allow the reader to understand the main theoretical models; revised and updated throughout for this edition.

Preventing Regulatory Capture

Public Technology Procurement and Innovation studies public technology procurement as an instrument of innovation policy. In the past few years, public technology procurement has been a relatively neglected topic in the theoretical and research literature on the economics of innovation. Similarly, preoccupation with `supply-side' measures has led policy-makers to avoid making very extensive use of this important `demand-side' instrument. These trends have been especially pronounced in the European Union. There, as this book will argue, existing legislation governing public procurement presents obstacles to the use of public technology procurement as a means of stimulating and supporting technological innovation. Recently, however, there has been a gradual re-awakening of practical interest in such measures among policy-makers in the EU and elsewhere. For these and other related measures, this volume aims to contribute to a serious reconsideration of public technology procurement from the complementary standpoints of innovation theory and innovation policy.

Competition in Telecommunications

In public sector procurement, social welfare often depends on the time taken to complete the contract. A leading example is highway construction, where slow completion times inflict a negative externality on commuters. Recently, highway departments have introduced innovative contracting methods that give contractors explicit time in--centives. We characterize equilibrium bidding and efficient design of these contracts. We then gather a unique data set of highway repair projects awarded by the Minnesota Department of Transportation that includes both innovative and standard contracts. Descriptive analysis shows that for both contract types, contractors respond to the incentives as the theory predicts, both at the bidding stage and after the contract is awarded. Next we build a structural econometric model that endogenizes project completion times, and perform counterfactual policy analysis. Our estimates suggest that switching from standard contracts to designs with socially efficient time incentives would raise commuter surplus relative to the contractor's costs by 19% of the contract value; or in terms of the 2009 Mn/DOT budget, $290 million.

The Economics of Contracts

This book examines the regulatory rules on public procurement in selected African countries and provides a comparative analysis of key regulatory issues.

Public Technology Procurement and Innovation

A 2002 survey of economics of contracts appealing to scholars in economics, management and law.

Procurement Contracting with Time Incentives

This book provides a comprehensive introduction to modern auction theory and its important new applications. It is written by a leading economic theorist whose suggestions guided the creation of the new spectrum auction designs. Aimed at graduate students and professionals in economics, the book gives the most up-to-date treatments of both traditional theories of 'optimal auctions' and newer theories of multi-unit auctions and package auctions, and shows by example how these theories are used. The analysis explores the limitations of prominent older designs, such as the Vickrey auction design, and evaluates the practical responses to those limitations. It explores the tension between the traditional theory of auctions with a fixed set of bidders, in which the seller seeks to squeeze as much revenue as possible from the fixed set, and the theory of auctions with endogenous entry, in which bidder profits must be respected to encourage participation.

Public Procurement Regulation in Africa

A critical examination of the role of the independent regulatory commissions, attempting to develop a more realistic concept of the process of governmental regulation and to appraise the independent commission as an agent of governmental regulation at the national level. Originally published in 1955. The Princeton Legacy Library uses the latest print-on-demand technology to again make available previously out-of-print books from the distinguished backlist of Princeton University Press. These editions preserve the original texts of these important books while presenting them in durable paperback and hardcover editions. The goal of the Princeton Legacy Library is to vastly increase access to the rich scholarly heritage found in the thousands of books published by Princeton University Press since its founding in 1905.

The Economics of Contracts

Tackles the important issue of how to regulate firms with market power.

Putting Auction Theory to Work

Simplifying entry regulation has been a popular reform since the publication of Djankov and others (2002). The inclusion of business entry indicators in the World Bank's Doing Business project has led to an acceleration in reform: in 2003-08, 193 reforms took place in 116 countries. A large academic literature has followed: 201 academic articles have used the data compiled by Djankov and others (2002) and subsequently by the World Bank. The author identifies three theories as to why some countries impose burdensome entry requirements. He also surveys the literature on the effects of making business entry easier.

Regulating Business by Independent Commission

This book investigates the economic decisions behind the implementation of public-private partnerships (PPPs). The first part of the book discusses different forms of public procurement contracts, in particular in France and the UK, and provides an economic analysis of the potential advantages and pitfalls of public-private partnerships. This exploration of PPPs' efficiency also includes an examination of the financing conditions of public procurements, as well as regulatory requirements. By reviewing empirical studies on PPPs, the second part of the book compares their advantages over purely public solutions and offers practical guidance on their implementation. Practitioners will also learn best practices on how to involve stakeholders in calls for bids.

Regulatory Reform

This book addresses the increasing demand for a logical understanding of how framework agreement should be used and implemented.

The Regulation of Entry

This book explores mandatory disclosures. The book raises questions regarding the efficacy of market discipline and reaches a conclusion that seems to be borne out by the recent failure of Silicon Valley Bank and Credit Suisse. The book starts by asking the question why do we need mandatory disclosures. First, it develops a framework using a Principal-Agent model that provides an economic rationale for such disclosures. Second, it analyses the requirements outlined in Basel banking regulations over three decades and finds support for the propositions outlined in the developed framework in all key BCBS pronouncements. Last, the book empirically evaluates Pillar 3 disclosures and arrives at the surprising result that such disclosures do not seem have an impact on bond investors. The book concludes by outlining the policy implications regarding the design, efficacy, implementation, and limitations of regulation in an economy.

The Economics of Public-Private Partnerships

After 25 years of industry restructuring, regulatory reform and deregulation across many industrial sectors in many countries, it is an appropriate time to take stock of the impacts of these reforms on consumers, producers and overall economic performance. This book contains the latest thinking on these issues by a distinguished international group of scholars. It s a collection of essays for our time that is well worth reading. Paul L. Joskow, Massachusetts Institute of Technology, US The most exciting development in the study of regulation in the past quarter century is research on the incentives that are created by the details of the procedures for creating and enforcing regulatory rules. This book brings together a rich collection of studies that collectively advance our understanding of the effect of regulatory governance on the performance of regulated firms, with important lessons about how to design more effective regulatory instruments and processes. Roger G. Noll, Stanford University, US Cycles of poorly-designed or weakly-enforced regulation, disappointing performance and political over-reaction are now familiar to students of regulated industries. Nourished by recent developments in the economics of incentives, including their transaction costs and property rights dimensions, and written by renowned experts in the field, Regulation, Deregulation, Reregulation is a must-read for all those interested in the economics and politics of regulation. A timely book, the publication of which coincides with the designing of a post-subprime regulatory framework for the financial industry. Jean Tirole, Toulouse School of Economics, France Building on Oliver Williamson s original analysis, the contributors introduce new ideas, different perspectives and provide tools for better understanding changes in the approach to regulation, the reform of public utilities, and the complex problems of governance. They draw largely upon a transaction cost approach, highlighting the challenges faced by major economic sectors and identifying critical flaws in prevailing views on regulation. Deeply rooted in sector analysis, the book conveys a central message of new institutional economics: that theory should be continuously confronted by facts, and reformed or revolutionized accordingly. With its emphasis on the institutional embeddedness of regulatory issues and the problems generated by the benign neglect of institutional factors in the reform of major public utilities, this book will provide a wide-ranging audience with challenging views on the dynamics of regulatory approaches. Economists, political scientists, postgraduate students, researchers and policymakers with an interest in institutional economics and economic organization will find the book to be a stimulating and enlightening read.

The Law and Economics of Framework Agreements

This volume introduces readers to regulatory theory. Aimed at practitioners, postgraduate students and those interested in regulation as a cross-cutting theme in the social sciences, Regulatory Theory includes chapters on the social-psychological foundations of regulation as well as theories of regulation such as responsive regulation, smart regulation and nodal governance. It explores the key themes of compliance, legal pluralism, meta-regulation, the rule of law, risk, accountability, globalisation and regulatory capitalism. The environment, crime, health, human rights, investment, migration and tax are among the fields of regulation considered in this ground-breaking book. Each chapter introduces the reader to key concepts and ideas and contains suggestions for further reading. The contributors, who either are or have been connected to the Regulatory Institutions Network (RegNet) at The Australian National University, include John Braithwaite, Valerie Braithwaite, Peter Grabosky, Neil Gunningham, Fiona Haines, Terry Halliday, David Levi-Faur, Christine Parker, Colin Scott and Clifford Shearing.

Mandatory Financial Disclosures and the Banking Sector

This book is based on two seminars held at Rutgers on October 22, 1993, and May 6, 1994 entitled `Incentive Regulation for Public Utilities'. These contributions by leading scholars and practitioners represent some of the best new research in public utility economics and include topics such as the theory of incentive regulation, dynamic pricing, transfer pricing, issues in law and economics, pricing priority service, and energy utility resource planning.

Regulation, Deregulation, Reregulation

The Theory of Industrial Organization is the first primary text to treat the new industrial organization at the advanced-undergraduate and graduate level. Rigorously analytical and filled with exercises coded to indicate level of difficulty, it provides a unified and modern treatment of the field with accessible models that are simplified to highlight robust economic ideas while working at an intuitive level. To aid students at different levels, each chapter is divided into a main text and supplementary section containing more advanced material. Each chapter opens with elementary models and builds on this base to incorporate current research in a coherent synthesis. Tirole begins with a background discussion of the theory of the firm. In Part I he develops the modern theory of monopoly, addressing single product and multi product pricing, static and intertemporal price discrimination, quality choice, reputation, and vertical restraints. In Part II, Tirole takes up strategic interaction between firms, starting with a novel treatment of the Bertrand-Cournot interdependent pricing problem. He studies how capacity constraints, repeated interaction, product positioning, advertising, and asymmetric information affect competition or tacit collusion. He then develops topics having to do with long term competition, including barriers to entry, contestability, exit, and research and development. He concludes with a "game theory user's manual" and a section of review exercises. Important Notice: The digital edition of this book is missing some of the images found in the physical edition.

Regulatory Theory

This book discusses current theories and practices in the field of public procurement. Over the past few decades, public procurement has had to evolve conceptually and organizationally in the face of unrelenting budget constraints, government downsizing, public demand for increased transparency in public procurement, as well as greater concerns about efficiency, fairness and equity. Procurement professionals have also had to deal with a changeable climate produced by emerging technology, environmental concerns, and tension between complex regional trade agreements and national socioeconomic goals. This volume presents sixteen case studies focusing on the themes of public procurement as a policy tool and performance-based public procurement. The first section discusses public procurement as a policy tool and the challenges involved in balancing the competing interests of market forces, legal requirements, political pressures, and environmental concerns. The second section discusses performance-based public procurement, highlighting the frameworks used to assess procurement systems, the gaps between policy and practice, and strategies for bridging those gaps. The final section of the book discusses current issues in procurement, such as the Trans-Pacific Partnership, risk mitigation, and procurement as a profession. By combining theory and analysis with evidence from the real world, this book is of equal use to academics, policy makers, and procurement professionals.

Incentive Regulation for Public Utilities

This report encourages governments to “think big” about the relevance of regulatory policy and assesses the recent efforts of OECD countries to develop and deepen regulatory policy and governance.

The Theory of Industrial Organization

As governments are major buyers of goods and services, foreign companies are keen to be able to participate in procurement opportunities on an equal footing with national firms. This has given rise to the inclusion of procurement disciplines in trade agreements and to internationally-agreed good regulatory practices in this important policy area. The contributions to this book examine how the dynamic mix of bilateral, regional, plurilateral and international norms on government procurement is reflected in purchasing practices at the national level and whether these are leading to convergence in policies and approaches. The countries studied span both advanced, high-income economies and emerging economies. Some are members of the WTO procurement agreement, others are not. Most WTO members have decided not to commit to binding international disciplines on procurement in trade agreements. This book explores whether there has been nonetheless internationalization of good procurement practices, and what current public purchasing processes suggest as regards the value added of signing on to binding rules of the game in this area. The approach taken in in the volume is interdisciplinary.0Contributors include economists, political scientists, legal scholars, and practitioners with a solid understanding of both the extant international disciplines and national government procurement policies. Each chapter assesses the current state of play as regards legislation and procurement practices; the degree to which industrial policy considerations feature in the relevant regulatory frameworks; the existence and use of domestic dispute resolution and review procedures that allow firms to contest the behavior of procuring entities; and the availability of data on procurement processes and outcomes --Back of cover.

Global Public Procurement Theories and Practices

Regulatory Policy and Governance Supporting Economic Growth and Serving the Public Interest