

**Econ 4622 Public Economics II A2014: Seminar assignment for 10 November**

**Problem 1**

Explain what it means that

- something is observable,
- something is verifiable
- something is contractible
- a contract is incomplete
- a contract is renegotiable
- someone is a principal
- someone is an agent

**Problem 2**

Suppose that a university professor is paid a salary consisting of a fixed part and a part determined by a measure of research output (scientific publications).

- (1) Discuss what may be a case for such a payment scheme.
- (2) Discuss concerns determining the weight assigned to the performance-based term.
- (3) Given this term, how should the fixed part be determined?
- (4) Discuss what may be problems with using such a scheme.

**Problem 3**

Suppose that the actions of an agent, say a teacher, are strictly regulated. In addition, it is being proposed to introduce a bonus scheme rewarding the agent for good outcomes (say test scores for pupils). Discuss this proposal.

**Problem 4**

Suppose the view is that in sector A there is potential for cost savings that will not harm quality much, while this is not the case in sector B. How would you assess the case for contracting out the activity versus having in-house production in the respective sectors?