

*Syllabus*: Information Structures, Risk Allocation and Prices in Financial Markets

The course deals with the role of *public* information, conveyed through an information structure, for the processes of risk allocation and price formation in financial markets. We begin with a thorough description and analysis of the theoretical concept of an information structure. The central theorems of information economics will be derived and illustrated. After treating the Arrow-characterization of equivalent information structures, stochastic dominance concepts will be used to define orderings on signal spaces. The usefulness of these orderings will be illustrated by means of various applications in economic models. Finally, we analyze the link between the value of public information and the operation of risk sharing arrangements.

Some basic literature:

Textbooks

1. Hirshleifer, J. and J. G. Riley (1992). *The Analytics of Uncertainty and Information*. Cambridge Surveys of Economic Literature. Cambridge University Press.
2. Laffont, J.-J. (1989). *The Economics of Uncertainty and Information*. MIT Press.
3. Nermuth, M. (1982). *Information Structures in Economics*. Lecture Notes in Economics and Mathematical Systems. Springer.