INCENTIVES

Motivation and the Economics of Information

When incentives work well, individuals prosper. When incentives are poor, the pursuit of self-interest is self-defeating.

This book is wholly devoted to the topical subject of incentives from individual, collective, and institutional standpoints. This third edition is fully updated and expanded, including a new section on the 2007–8 financial crisis and a new chapter on networks as well as specific applications of school placement for students, search engine ad auctions, pollution permits, and more.

Using worked examples and lucid general theory in its analysis, and seasoned with references to current and past events, *Incentives: Motivation and the Economics of Information* examines:

- the performance of agents hired to carry out specific tasks, from taxi drivers to CEOs;
- the performance of institutions, from voting schemes to medical panels deciding who gets kidney transplants;
- a wide range of market transactions, from auctions to labor markets to the entire economy.

Suitable for advanced undergraduate and graduate students studying incentives as part of courses in microeconomics, economic theory, managerial economics, political economy, and related areas of social science.

Donald E. Campbell is the CSX Professor of Economics at the College of William and Mary, Virginia. Campbell received a BA from Queen's University in Ontario and his doctorate from Princeton, and previously taught at the University of Toronto for twenty years. He specializes in mechanism design and social choice theory and teaches advanced courses on incentives and information. He has written three books and over 100 articles in leading journals.

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MOTIVATION AND THE ECONOMICS OF INFORMATION

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College of William and Mary, VA

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For Maggie and Andre

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Preface to the Third Edition

My greatest debt is to Emily Martell, an undergraduate at William and Mary. She was my research assistant for the last eight months of work on the book. Her love of learning, her ability to write good prose, and her extraordinary intellect redounded to my great benefit and to the benefit of anyone who reads this book. Emily contributed to a few of the topics – the Enron debacle among them – and read the new network chapter and some others, each with great care. She responded to requests for help with alacrity and skill. Both her research and her critique of the manuscript were exemplary. She not only identified glitches, she drew my attention to passages that were not sufficiently clear. ("Glitch" is an understatement. She saved me from a horrible blunder in Chapter 4.) Emily even corrected my prose. I am deeply grateful for her help, and blessed to have had her as a colleague. Any defects that remain can be put down to the fact that I did not give her enough time to read the entire manuscript.

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A number of William and Mary undergraduates have contributed to the third edition by suggesting improvements to its predecessor. I'm happy to be able to publicly thank Fasil Alemante, Daniel Byler, Bryan Callaway, Jimmy Cao, Sarah Gault, You-Suk Kim, Shane Mangin, Ruoyan Sun, Richard Uhrig, and especially Theresa Long. I'm also grateful to Simon Fung who, as a student at the University of London, drew my attention to an error in the second edition.

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I dedicate this book to my two youngest grandchildren, Maggie and Andre. They make the world a better place, especially my world.