

## Lecture Note 1

### Laffont, J-J. and J. Tirole (1993): Introduction

**Please answer the following questions:**

1. What are the three types of regulatory constraints? Give a brief description and one example for each.
2. Define the elements ( $t, a, b, C$ ) of the following equation:

$$t = a - bC$$

Explain “high powered” and “low powered” incentive schemes. How do the equation elements differ for those schemes?

3. Briefly define the following incentive schemes:
  - a) Procurement Contracts
  - b) Cost-of-Service Regulation
  - c) Incentive Regulation
  - d) Price Caps
4. Although marginal cost pricing is considered welfare optimal it is not without criticism. Which aspects of marginal cost pricing are subject to criticism and why?
5. Laffont and Tirole develop the canonical model of regulation with a 10 step structure. Shortly reflect the assumptions.