



## Keio Business School

# Hidden Information and Sorting Potential Customers: The Applicability of Contract Theory Reconsidered II

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## Questions

1. Read the first half of Section 2. Suppose that the monopolist does not know which type each consumer is. Find a sufficient condition under which adverse selection occurs when the monopolist offers the menu of the first-best contract to consumers. 15
2. Read the second half of Section 2. Confirm the formulation of Problem (3) and the process for deriving the menu of the second-best contract.
3. In this case material, a mechanism for screening hidden information is applied to product design. Let us consider the application of the same mechanism to the organizational design in companies. First, specify some company and clarify the role and function of the middle management of that company, such as gathering and transmitting information, project management and monitoring subordinates' performance, etc. Then, consider how the organizational structure of the company will be changed when decision-making made by human middle managers is replaced with tasks solved by an automated decision-making mechanism incorporated therein. 20  
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This case was written by Naoki Watanabe (Graduate School of Business Administration, Keio University) for facilitating classroom discussions at Keio Business School. This case is published by Keio Business School. Inquiries about reproducing the case should be referred to Keio Business School (4-1-1 Hiyoshi Kohoku, Yokohama, Kanagawa 223-8526; Phone: +81-45-564-2444; E-Mail: [case@kbs.keio.ac.jp](mailto:case@kbs.keio.ac.jp)) To order copies of the case, go to the website (<http://www.kbs.keio.ac.jp>).

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