

Informed Principal Problem in a Monopoly Environment

Takeshi Nishimura*

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Abstract

In a monopoly environment where a monopolist as well as buyers has private information about the economic environment, we investigate the general properties of the trading mechanism selected by the monopolist in an equilibrium of the mechanism-selection game, called the RSW (Rothschild-Stiglitz-Wilson) equilibrium. The monopolist's optimal mechanism when her information is common knowledge causes the undersupply problem. We provide sufficient conditions on the production technology under which the privacy of the monopolist's information mitigates or worsens the undersupply problem in any RSW equilibrium.

*Hitotsubashi University; ed091004@g.hit-u.ac.jp.