

*INFORMATION CONSTRAINED INSURANCE*  
The Revelation Principle Extended

Robert M. Townsend  
University of Chicago

**Private information induced incentive constraints can cause allocations to diverge from full information optimal allocations, often in the direction of limited insurance, but can bring unanticipated anomalies. Related, plausible contract exclusion restrictions can be damaging in welfare terms. More generally, private information optimal allocations can be sensitive to the information structure, suggesting that the latter be specified with an eye toward realism as well as tractability. In an effort to make tractability less of a constraint the paper shows how two apparently difficult information structures – a costly state verification environment and a multi-period multilateral private information environment – can be handled theoretically, by revelation principle methods. The paper also shows how solutions can be generated numerically.**