

Other Regarding Principal and Moral Hazard with Multiple Agents

Swapnendu Banerjee,
Jadavpur University

Date: 14.05.2019, Venue: P22 @ 2.30PM

Abstract

We analyze a principal multi-agent interaction where the agents are other-regarding vis-à-vis themselves and the principal is other-regarding vis-à-vis the agents. We show that when projects are 'not highly controllable' both team contracts and relative performance contracts can be optimal if the principal is 'status seeking' or 'not too inequity-averse'. But an extreme independent contract is optimal when the principal is sufficiently inequity averse. When projects are 'highly controllable' team contracts are never optimal (barring an insignificant case). Similar results hold when the projects of the agents are correlated as well. Also the agents are generally (weakly) better-off under a 'sufficiently inequity averse' principal compared to a 'status seeking' or 'moderately inequity-averse' principal. With a 'fair' principal, ceteris paribus, team contracts are more likely over relative performance contracts compared to the standard 'other-regarding' principal.

Speaker Profile

<http://www.jaduniv.edu.in/profile.php?uid=134>