Optimal contract to avoid disastrous outcomes (and information precision)

Fumitoshi Moriya*    Takuro Yamashita†

Abstract

A purpose of this paper is to study the optimal incentive schemes which induce agents to exert effort as unique Bayesian Nash equilibrium. We consider a model in which (i) a principal makes up a team consisting of two agents, and (ii) incentive schemes can be contingent on the team performance (team production). In this model, it is shown that asymmetric information between two team members is beneficial for the principal.

*Kobe City University of Foreign Studies
†Toulouse School of Economics