
Renegotiation-proofness in a principal agent model

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Abstract

We analyse renegotiation-proof incentive provision in a dynamic moral hazard model. We derive the optimal contract that induces the agent to act in the principal's interest while leaving no scope for mutually beneficial ex-post renegotiation. The contract involves the use of randomised termination if and only if the optimal full-commitment contract fails to be renegotiation-proof.

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