

## **Economics Seminar, Indian Statistical Institute, New Delhi.**

**SPEAKER:** Jimmy Chan, Shanghai University of Finance and Economics

**TITLE:** Optimal Efficiency-Wage Contracts with Subjective Evaluation

**TIME:** 11:30-1:00 PM.

**DAY & DATE:** Friday, 13<sup>th</sup> February, 2009

**PLACE:** Seminar Room 2, New Building

### **Abstract:**

We study a T-period contracting problem where performance evaluations are subjective and private. We find that the principal should punish the agent if he performs poorly in the future even when the evaluations were good in the past, and, at the same time, the agent should be given opportunities to make up for poor performance in the past by performing better in the future. Thus, optimal incentives are asymmetric. Conditional on the same number of good evaluations, an agent whose performance improves over time should be better rewarded than one whose performance deteriorates. Punishment is costly, and the surplus loss increases in the correlation between the evaluations of the two contracting parties. As the correlation diminishes, the loss converges to that of Fuchs (2007).

<http://www.isid.ac.in/~pu/seminar.html>