1 Preface

Traditional economic theory assumes that individuals are self-interested. They only care about their own well-being and disregard the impact of their actions on the others. However, the assumption of selfish individuals is unable to explain a number of important phenomena and puzzles. Individuals frequently engage in actions that are costly to themselves with no apparent reward. Behavioural economics provides plausible explanations for these actions. Individuals can be "boundedly rational" (Simon, 1955, and Kahneman et al. 1982) and/or can be driven by altruistic, equity and reciprocity considerations (see for an overview Fehr and Schmidt, 2006). Over the past decade, researchers have applied behavioural economics models to the study of organisations and how contracts should be designed in the presence of non-standard preferences and asymmetric information or incomplete contracts (see for an overview of the literature Köszegi, 2014).

In my current research, I try to be at the forefront of these new behavioural economics applications into traditional industrial organisation and contract theory themes. The usual prescriptions of standard models can be misleading if potential differences in the agents' preferences are overlooked. Behavioural economics can make great progress if it takes into proper account market and organisational features.

This dissertation comprises three chapters.

In the first chapter, Customer-Oriented Employees: Blessing or Curse for Firms?, I show that the widely-held view that firms always benefit from hiring motivated agents - that is, agents who also care about the well-being of the customers - may not be true in a competitive environment. In presence of competition, the strategic interaction between firms may lead to unexpected results concerning the desirability of hiring motivated agents. In particular, I find that firms may obtain higher profits by hiring self-interested agents than by hiring motivated agents. However, firms find themselves trapped in a prisoner's dilemma in which the strategy of hiring self-interested agents is strictly dominated by that of hiring motivated agents. Therefore, the very presence of a motivated work force may hurt firms.

In the second chapter, Delegation with a Reciprocal agent, Alessandro De Chiara1 and I study a delegation model in which a principal needs to delegate the choice of a project to a better informed agent who is motivated by reciprocity. An agent is said to be reciprocal if he responds to actions he perceives to be kind in a kind manner, and to actions he perceives to be hostile in a hostile manner (see Rabin, 1993, Dufwenberg and Kirchsteiger, 2004, and Falk and Fischbacher, 2006).

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The preferences of the agent and the principal about which projects should be undertaken can be discordant. We find that when the conflict of interest is more severe and the agent’s sensitivity to reciprocity is small, the principal is more likely to retain authority about the choice of the project with respect to the standard case wherein the agent does not reciprocate. In contrast, if the preferences are more aligned and/or the agent is very sensitive to reciprocity, the set of allowable decisions is larger relative to the standard case. We find that there always exists a threshold value of the reciprocity parameter above which the principal grants full discretion to the agent. If the agent is expected to reciprocate, it may well be the case that the principal delegates authority even when their preferences about the choice of the project are very discordant.

In the third chapter, Intrinsically Motivated Agents in Teams, I develop a principal-agent model where a profit-maximizing principal employs two agents to undertake a project. The employees differ in terms of their intrinsic motivation towards the project and this is their private information. I analyse the impact of individual and team incentives on the screening problem of employees with different degrees of motivation within teams. If the principal conditions each agent’s wage on his own level of effort (individual incentives), an increase of the rents paid to the motivated agents results in a lower level of effort exerted by all agents in the second-best. In this case, reversal incentives occur. Conversely, reversal incentives do not arise if the principal uses team-incentives. If the principal conditions each agent’s wage on the effort of both agents and the agent’s performance on the effort of his colleague (team-incentives), motivated agents exert the same level of effort as in the first-best. Despite these benefits, team incentives do not seem to be always used in the real world. This may be explained by the agents’ attitude towards risk with respect to changes in income. If individuals are risk averse they are unwilling to be paid on the basis of the levels of effort of each member of the team. In addition, intrinsically motivated agents might be better off under individual incentives than team-incentives.

References


