

Contracting

First a few definitions: (see text)

- ▶ A **contract** is an agreement about behavior that is intended to be enforced
- ▶ Two phases:
 - ▶ **Contracting phase**: when the players agree on a contract
 - ▶ **Implementation phase**: when the contract is carried out + enforced

Contracting

First a few definitions: (see text)

- ▶ A **contract** is an agreement about behavior that is intended to be enforced
- ▶ Two phases:
 - ▶ **Contracting phase**: when the players agree on a contract
 - ▶ **Implementation phase**: when the contract is carried out + enforced
- ▶ Enforcement mechanisms:
 - ▶ **Self-enforced**: players have no incentive to deviate (Nash equilibrium)
 - ▶ **Externally enforced**: enforced by judge or arbitrator
 - ▶ **Automatically enforced**: implementation is instantaneous

Contracting

First a few definitions: (see text)

- ▶ A **contract** is an agreement about behavior that is intended to be enforced
- ▶ Two phases:
 - ▶ **Contracting phase**: when the players agree on a contract
 - ▶ **Implementation phase**: when the contract is carried out + enforced
- ▶ Enforcement mechanisms:
 - ▶ **Self-enforced**: players have no incentive to deviate (Nash equilibrium)
 - ▶ **Externally enforced**: enforced by judge or arbitrator
 - ▶ **Automatically enforced**: implementation is instantaneous
- ▶ **Technology of the relationship**: game-theoretic representation of the interaction in the contractual relationship; it expresses the implications of the contract as a game