

Screening Risk Averse Agents Under Moral Hazard, , ISSN 0265-8003, Bruno Jullien, Bernard Salani , Fran ois Salani , 2001, Centre for Economic Policy Research, 2001

Principal-agent models of moral hazard have been developed under the assumption that the principal knows the agent's risk-aversion. This paper extends the moral hazard model to the case when the agent's risk-aversion is his private information, so that the model also exhibits adverse selection. We characterize the optimal menu of contracts; while its detailed properties depend on the setting, we show that some of them must hold for all environments. We show that if the agent is sufficiently prudent and able, the principal induces a higher probability of success than under moral hazard, despite the costly informational rent given up. Moreover, there is distortion at the top. Finally, the conditions to avoid pooling are difficult to satisfy because of the different kinds of incentives to be managed and the overall trade-off between rent extraction, insurance, and efficiency involved.  MDPI and ACS Style. Mar chal, F.; Thomas, L. The Optimal Contract under Adverse Selection in a Moral-Hazard Model with a Risk-Averse Agent. Games 2018 , 9 , 12. AMA Style. Mar chal F, Thomas L. The Optimal Contract under Adverse Selection in a Moral-Hazard Model with a Risk-Averse Agent. Games . 2018; 9(1):12. Chicago/Turabian Style. 3. Risk-Averse Agent 4. Risk-Neutral Agent 5. Multiple Signals 6. Multiple Tasks 7. Subjective Signals 8. Intrinsic Motivation. Risk Averse Agent. Multilateral. 9. Teams 10.  Moral Hazard arises when:   The principal cannot observe or verify the agents action   The principal and the agent have conflicting interests. The Moral Hazard exists even if the principal can observe and verify the outcome (but not the agents action):   $q=q(e)+u$   Hard to determine what part of outcome is due to agents action and what part is due to other factors   E.g. $8=x+y$. ECO381. Risk Averse Agent.