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Presentation Title
Reciprocity in Dynamic Employment Relationships

Abstract
This paper analyzes a relational contract for employees with reciprocal preferences. I show that generous upfront wages are more important when an employee is close to retirement. In earlier stages, "direct" performance-pay promising a bonus in exchange for effort is used more extensively. Then, a longer remaining time horizon increases the employer's commitment. However, the norm of reciprocity already shapes the incentive system at the beginning of the employee's career. I also show that more competition might magnify the use of reciprocity-based incentives, and that a formal commitment to paying non-discretionary wages in the future can boost the employer's credibility.

Keywords
Reciprocity, relational contracts, norms and social preferences

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