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Presentation Title

A Testing Period Model: Bayesian Persuasion Meets Screening

Abstract

We study a dynamic screening problem where the principal tries to influence a privately informed agent through Bayesian persuasion in the short run in order to both maximize its stage game payoff and learn about the receiver's type for the long run. We apply the model to "testing periods" such as the experience time most countries allow for the firms to evaluate its workers before full hiring. The results of this model have close parallels to the traditional screening problem under a single price instrument, in the sense that there will be an optimal pooling and separating strategies with no room for semi-separating equilibria. The intuition is that although information is potentially complex, it affects the receiver only through a simple instrument: the expected posterior belief. Hence, it acts as a single contract. We also show that receiver's private information might be explored by the sender to allow for the latter to have a higher payoff than in the full information case. This is a reverse Ratchet effect and it is caused by the fact the receiver's strategic interests make them more aligned to sender's payoff in this model.

Keywords

Dynamic contracting; Bayesian Persuasion

Affiliation

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