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Presentation Title

Wasted Bribes: Designing Surprise Amnesties which Deter Collusion
(with Andrew Clausen)

Abstract

We study optimal incentive design in a moral hazard problem where the agent can bribe the monitor. If the agent's fines are exogenously determined and commonly known, Ortner and Chassang (2018) show that the principal can confound bribery attempts by committing to pay the monitor a stochastic wage. This is because giving the monitor private information about their wage places incentive constraints on any ensuing bribery negotiations. What if the principal can additionally commit to charge the agent a stochastic fine? We find that there is an optimal mechanism which frustrates bribery by giving the agent `surprise amnesties' whenever the monitor draws a low wage. By correlating the agent's fine with the monitor's wage, surprise amnesties create a `winner's curse' for the agent: if his bribe is accepted, then it is more likely that he would have received a surprise amnesty, but then his bribe will have been wasted.

Keywords

Collusion; mechanism design; bilateral bargaining; endogenous asymmetric information; winner's curse; market for lemons

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