

Zsolt Bihary

Presentation Title

Gig Economy: A Dynamic Principal-Agent Model

(with Péter Kerényi, Péter Csóka and Alexander Szimayer)

Abstract

The gig economy with alternative work arrangements is increasingly spreading all over the world. We provide a dynamic principal-agent model to understand the nature of contracts between an organization and an independent gig worker. The main novelty of our paper is that we model the bargaining power of the independent gig worker in such a way that the agent accepts a gig job if and only if its utility is at least as large as his reference value, which is based on the average of previously realized wages. If the dynamically changing reference value capturing the expectations of the agent is too high, then no contract is struck, until the reference value hits a threshold. Below the threshold, we show that a contract is offered and accepted, and the expectations of the agent tends to increase. We prove that a far-sighted principal sacrifices instantaneous profit to regulate the agent's expectations. We find that the agent has a higher bargaining power if he can afford to go unemployed and need not take a gig at all costs. Conversely, far-sighted employers who can afford to stall production will obtain high profits.

Keywords

Contract theory; principal-agent problem; gig economy; habit formation; bargaining.

Affiliation

Corvinus University of Budapest