<http://hdl.handle.net/2027.42/64965>
http://hdl.handle.net/2027.42/64965
Playlist

“Conflict of Interest”, Binky Mack

“Disagree”, Chantal Kreviazuk

“Hide and Seek”, Ani di Franco

“Did You Get My Message?”, Jason Mraz

“Joint Venture”, Staffan William-Olsson

“Silent Agency”, Silent Agency
Hidden Action I
Information professionals need to manage many resources to succeed.
Information professionals need to manage many resources to succeed. Including people.
Agents use your expensive resources, but you can’t always monitor what they do.
You must learn to manage without control.
You succeed if your independent agents \textit{want} to solve \textit{your} problems.
Design agreements that motivate agents to self-monitor.
You can keep your job for another day.
Perfect contracts with perfect information can solve this problem.
Contract

The party of the first part and the party of the second part hereby agree that:

If $x_1$ happens, do $y_1$, get paid $z_1$;
If $x_2$ happens, do $y_2$, get paid $z_2$;
If $x_3$ happens, do $y_3$, get paid $z_3$…

Elmer Fudd
Elmer Fudd, Esq.

Alfred E. Newman
Death penalty for parking violations

<example>
TRUST US—WE'RE EXPERTS!

JOHN STAUBER AND SHELDON RAMPTON

Do you trust this seller?

© 2001 Tarcher/Putnam. All rights reserved.
Error 554 HVU:B1

- 554 HVU:B1
  http://postmaster.info.aol.com/errors/554hvub1.html

EXPLANATION:

There is at least one URL in your email that is generating substantial complaints from AOL members.

SOLUTION:

If you own all the domains linked to in your e-mail, please contact us to discuss more effective management of your complaint levels. You can start by setting up a free complaint loop through this form. This will allow you to receive AOL member complaints against your domain.

If you do not own the domain, please have the owner of that domain contact us.
OFFICIAL CHECK

145879334

FEBRUARY 3, 2003

Pay to: ***Targeted victim's name deleted***

in the order of

National City

9,650.00

9,650.00

* 9, 650.00*

National City Bank of Michigan/Illinois

AUTHORIZED SIGNATURE

National City

GLOBAL COMM. INC.

Drawer: National City Bank of Michigan/Illinois

NATIONAL

$9,650.00

AUTHOR OF SIGNATURE

1. Integrated Payment Systems Inc., Englewood, Colorado


THE VARIABLE TONE BACKGROUND AREA OF THIS DOCUMENT CHANGES COLOR GRADUALLY AND SMOOTHLY FROM DARKER TONES AT BOTH TOP AND BOTTOM TO THE LIGHTER TONE IN THE MIDDLE.
The information requirements for perfect contracting are prohibitive.
bounded rationality
memory
communication
computation
silicon-based
What are some solutions?
reputation
commitment
Xiang Yu
Photo tour of factory: http://forums.vwvortex.com/zerothread?id=1837641
contracts
Gabor Varszegi
fotex

pay 4x the market wage
Canonical contracting problem

*Principal* contracts with *agent* to carry out some type of action or make some decision

- *principal* designs and offers the contract(s)
- *agent* freely chooses whether to accept (IR)
- *agent* performs, but has some information not available to *principal*
Mount-Reiter diagram

Environment → Objective function → Outcome

→ messages, actions

→ payoff function

Message space
Canonical contracting problem

*Principal* contracts with *agent* to carry out some type of action or make some decision.

NB: Fundamental conflict of interest:
Cost for one is benefit for other.

NB: Verifiability is critical issue:
What is enforceable?
1. Agency cost

When principals and agents have conflicting objectives, and asymmetric info...

- ...Can’t expect the organization or community (etc.) to function as well as it would with full information or aligned objectives

Shortfall: *agency cost*
2. Information rent

Principal transfers part of surplus to agent to overcome agency cost: this is the agent’s compensation.

Compensation = reservation utility + information rent
Dissolving a joint venture
How to agree on price for a departing participant?
2 agents, self-regarding, monotonic preferences: prefer $x_i$ to $y_i$ iff $x_i > y_i$

Message space: $v_i$, announced valuation for share.

Problem: How to decide payment given the $v_i$?
What’s wrong with the following mechanisms?
Departing partner announces her at departure date.

Partner has to buy her out at that price
Agree on buyout price at contract commencement date.
Departee announces $v_i$ at departure date.

Partner chooses to buy at that price, or sell his half to departee at same price.
Proof of incentive compatibility

Suppose share is worth $w$ to both partners (but they don’t know the value to the other)

- If you announce $v > w$, partner will sell to you for $v$, you will lose
- If you announce $v < w$, partner will buy from you for $v$, you will lose
- Announce $v = w$: partner willing to buy from you, get full value
Pareto optimal

Everyone at least as well off as before, no one worse

No other result is Pareto superior

Cf. Pre-nuptial agreements
But, not so fast…

What if the partners have different beliefs about the true value?

- Suppose $w_1 \in [a,b]$, and $w_2 \in [c,d]$ with $a<c<b<d$ (overlapping intervals)

- What problem occurs with proposed mechanism?
But, not so fast…

What if the partners have different beliefs about the true value?

- Suppose $w_1 \in [a, b]$, and $w_2 \in [c, d]$ with $a<c<b<d$ (overlapping intervals)

- What problem occurs with proposed mechanism?

  - Depending on beliefs about $w_2$, seller might want to bid $v > w_1$, risking having to buy other share at higher price, but hoping to sell own share at higher price
Discussion

• In this setting (bilateral trade with overlapping value supports) *no mechanism can guarantee* that its outcome will be:
  – efficient
  – budget balanced
  – individually rational

• For example, for any mechanism there might be cases where $w_2 > w_1$, so there is some price at which both parties are better off if one partner sells to the other, but for which trade will not occur: Myerson-Satterthwaite (1981)
<summary>
Humans are crucial devices in any system.
They are autonomous and (generally) at least somewhat self-interested.
Most tasks that require cooperation or agency (effort on behalf of someone else) have intrinsic conflict of interest.
Conflict of interest
Not swear words.
Learn to love them.
They create an opportunity for smart ICD professionals:

Problems to solve.