Search Agency

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Abstract

This paper analyzes the optimal provision of incentives for sequential search. A principal who hires an agent to search faces two informational problems: the agent has private information about the search effort exerted as well as about the search results. We show that the principal finds it optimal to incentivize the agent to search at a lower intensity level and to terminate search at a lower discovery level, compared to when the principal searches directly. We characterize situations that induce dynamic conflicts between the principal and the agent, and investigate contractual and organizational solutions to these problems.

JEL Classification: D83 (Search; Learning; Information and Knowledge), M52 (Compensation and Compensation Methods and Their Effects).

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