CHOICE OF INFORMATION SYSTEMS FOR DECISION AND CONTROL PROBLEMS

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Abstract:

We compare information systems for a principal faced with problems of double moral hazard. The available systems differ only with respect to the moment in which information is released. Pre-decision information allows principal and agent to induce a probability of success with smaller amounts of effort, but it can make it costlier for the principal to commit to a pre-specified effort level. In a one-period setting, the principal prefers more and early information, if his marginal productivity increases with the agent's effort. In contrast, in a two-period setting, the principal may value no information higher than early pre-decision information for both decision makers.