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SEMINARIO

"Incentives, Contracts and Markets: A General Equilibrium Theory of Firms"

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Abstract:

This paper takes steps toward integrating firm theory in the spirit of Alchian & Demsetz (1972) and Grossman & Hart (1986), contract theory in the spirit of Holmstrom (1979), and general equilibrium theory in the spirit of Arrow & Debreu (1954) and McKenzie (1959). In the model presented here, the set of firms that form and the contractual arrangements that appear, the assignments of agents to firms, the prices faced by firms for inputs and outputs, and the incentives to agents are all determined endogenously at equilibrium. Agents choose consumption — but they also choose which firms to join, which roles to occupy in those firms, and which actions to take in those roles. Agents interact anonymously with the (large) market, but strategically within the (small) firms they join. The model accommodates moral hazard, adverse selection, signaling and insurance. Equilibria may be Pareto ranked.
Keywords general equilibrium, incentives, contracts, firms, organizations, teams
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