

Accepted Manuscript

Even up: Maintaining relationships

Larry Samuelson, Ennio Stacchetti

PII: S0022-0531(17)30019-4
DOI: <http://dx.doi.org/10.1016/j.jet.2017.02.002>
Reference: YJETH 4637

To appear in: *Journal of Economic Theory*

Received date: 18 May 2016
Revised date: 15 December 2016
Accepted date: 7 February 2017

Please cite this article in press as: Samuelson, L., Stacchetti, E. Even up: Maintaining relationships. *J. Econ. Theory* (2017), <http://dx.doi.org/10.1016/j.jet.2017.02.002>

This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and review of the resulting proof before it is published in its final form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.



EVEN UP: MAINTAINING RELATIONSHIPS

LARRY SAMUELSON
Yale University

and

ENNIO STACCHETTI
New York University

February 13, 2017

ABSTRACT. When are economic interactions mediated by prices and transfers, and when are they mediated by variations in the continuation payoffs within a relationship? To address this question, we examine a relationship between two players who periodically face opportunities to undertake randomly generated “projects” that impose a cost on one player and a benefit on the other, as well as opportunities to make voluntary transfers to one another. We characterize the set of equilibria, with particular emphasis on the efficient frontier. In the absence of transfers, incentives are often created by adjusting the continuation values of the relationship, sometimes increasing player 1’s continuation payoff (to induce player 1 to accept a particularly costly current project) and sometimes increasing player 2’s continuation payoff. In contrast, once transfers enter the picture, continuation payoffs maximize the sum of the two players’ payoffs, no matter how asymmetric the point on the Pareto frontier under consideration. However, transfers can also be relatively rare, and in particular can occur less often than the adjustments in continuation values that occur without transfers. Players thus rely on transfers to create incentives, but manage to do so while rarely making transfers.

I. Introduction

I.1 Motivation: Maintaining Relationships

In many economic interactions, the incentives to take an action are created by contemporaneous prices, contracts or mechanisms. Consumers purchase goods and pay for them. Firms pay their workers according to contracts specifying wages and commissions.

This research was supported by the National Science Foundation (SES-1459158, Samuelson; SES-1357780, Stacchetti). We thank an associate editor and two referees for helpful comments, and thank Sofia Moroni and Chiara Margaria for research assistance.

متن کامل مقاله

دریافت فوری ←

ISIArticles

مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات