

Bribery Prevention and Efficiency Wage

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In this paper, we analyze the corruption in entry regulation that involves an entrepreneur and a track of bureaucrats. Instead of formulating a game in extensive form to analyze the sequential nature of the process involved in the application for a permit, we focus on the corruption in entry regulations that involves both entrepreneur and multiple bureaucrats to negotiate simultaneously for bribes from the mechanism design perspectives. Based on the modified bilateral trading model by Mizoguchi and Quyen (2009), our result confirms the efficiency wage argument; that is, a higher wage discourages corruption by lowering the probability that bureaucrat will accept bribes for fear of losing their jobs if get caught. More rigorous law enforcement to increase the probability of detection also helps to reduce corruption.

KEYWORDS: Corruption, Bribery Prevention, Efficiency Wage

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