

Optimal Delegation with Self-Interested Agents and Information Acquisition

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Abstract

We consider a team that is composed of a principal and an agent needs to choose a project to run, while they may have different preferences over the project. The agent has various types of bias, and he can make effort in acquiring the information regarding the promise of the project. The principal can either keep the decision-making authority of choosing which project to run, or delegate it to the agent. We find that the optimal effort level is the highest when the agent is the most biased under the principal's authority, while it is the highest when the agent's bias is intermediate under the agent's authority. Therefore, the principal should keep the authority and communicate with the agent when the agent is relatively biased, while she should delegate the authority when the agent has an intermediate bias.

Keywords: Optimal delegation, agent's bias, information acquisition

JEL classification: D23, D82, D86.

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