

Countervailing Conflicts of Interest in Delegation Games

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Abstract

We study delegation games in the presence of countervailing conflicts of interest. A principal relies on an agent for information related to a decision. We consider two dimensions of conflict of interest—one over the outside option (pandering incentives) and the other over projects (bias). Pandering incentives and bias countervail each other and affect the welfare comparison among three delegation mechanisms—full delegation, veto-based delegation, and communication (no delegation). Unlike the current literature, we show that the principal's welfare is not monotonic with respect to the bias. Especially, an increase in the bias may make communication dominate delegation.

Keyword: Bias. Delegation. Pandering. Principal-agent relationship.

JEL Codes: D78, D82, L22, M54.

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