Optimal Incentive Contract with Risk-Averse Agents

Toshihiko Nanba *
Kyoto University

January 25. 2019

Abstract

This paper studies incentive contracts between a risk-neutral principal and a risk-averse sales agent in a standard moral-hazard model. We show that a quota-based contract can achieve a first-best outcome when the agent is risk-averse. Furthermore, we show that if the agent is sufficiently risk-averse, this contract also achieve a first-best outcome, even when the agent is protected by limited liability constraint.

Keywords: Quota-based contract; Risk-averse agents; Moral-hazard

*E-mail: toshihikonanba@gmail.com