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Optimal Procurement of a Credence Good under Limited Liability

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**Highlights**

- We analyze the optimal contract for a consumer to procure a credence good from an expert.
- The expert might misrepresent his private information about the consumer's need, his choice of treatment is non-observable, and he is protected by limited liability.
- It is optimal to make payments more contingent on success and failure of a treatment rather than its cost.
- Compared with the first-best, the optimal contract induces inefficient undertreatment.
- Separating diagnosis and treatment increases consumer surplus.

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