

Moral Hazard in Strategic Decision Making

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PII: S0167-7187(17)30126-1
DOI: [10.1016/j.ijindorg.2017.10.001](https://doi.org/10.1016/j.ijindorg.2017.10.001)
Reference: INDOR 2395



To appear in: *International Journal of Industrial Organization*

Received date: 22 February 2017
Revised date: 18 September 2017
Accepted date: 1 October 2017

Please cite this article as: Martin C. Byford, Moral Hazard in Strategic Decision Making, *International Journal of Industrial Organization* (2017), doi: [10.1016/j.ijindorg.2017.10.001](https://doi.org/10.1016/j.ijindorg.2017.10.001)

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Highlights

- I develop a theory of moral hazard in which the agent is a strategic decision-maker.
- Career concerns cause the agent to manipulate the project's risk-return tradeoff.
- The moral hazard problem can be ameliorated by outcome contingent contracts.
- The optimal incentive contract involves 'in-the-money' options.
- The optimal tenure standard requires the agent to exceed expectations.

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