

Agency Theory with Maxmin Expected Utility Players

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This paper extends the analysis of incentive schemes, designed to mitigate the welfare loss associated with moral hazard, to the case in which the principal and the agent are maxmin expected utility players. Invoking the parametrized distribution approach to agency theory, the paper examines the axiomatic foundations of the principal's and agent's choice behaviors that are representable by the maximization of the minimum expected utility over action-dependent sets of priors. In the context of this model, the paper also discusses some implications of ambiguity aversion for the design of optimal incentive schemes.